

*Comprehensive Annual  
Financial Report*

*City of Poquoson, Virginia*



*Fiscal Year Ended June 30, 2006*

*Prepared by:*

*The Department of Finance  
Lisa K. Dessofty, CPA, Director*



Certified Public Accountants  
Specialized Services  
Business Solutions



*City of Poquoson, Virginia*  
*Government Officials*

**City Council**

Gordon C. Helsel, Jr., Mayor  
Arthur V. Holloway, Jr., Vice Mayor  
Herbert R. Green, Jr.  
Carey L. Freeman  
W. Eugene Hunt, Jr.  
Frank A. Kreiger  
Debra D. Bunting

**City Officials**

Charles W. Burgess, Jr., City Manager  
Lisa K. Dessoffy, CPA, Director of Finance  
Lisa K. Dessoffy, CPA, Interim Treasurer  
Graham P. Wilson, Commissioner of the Revenue  
D. Wayne Moore, City Attorney  
Judy F. Wiggins, City Clerk

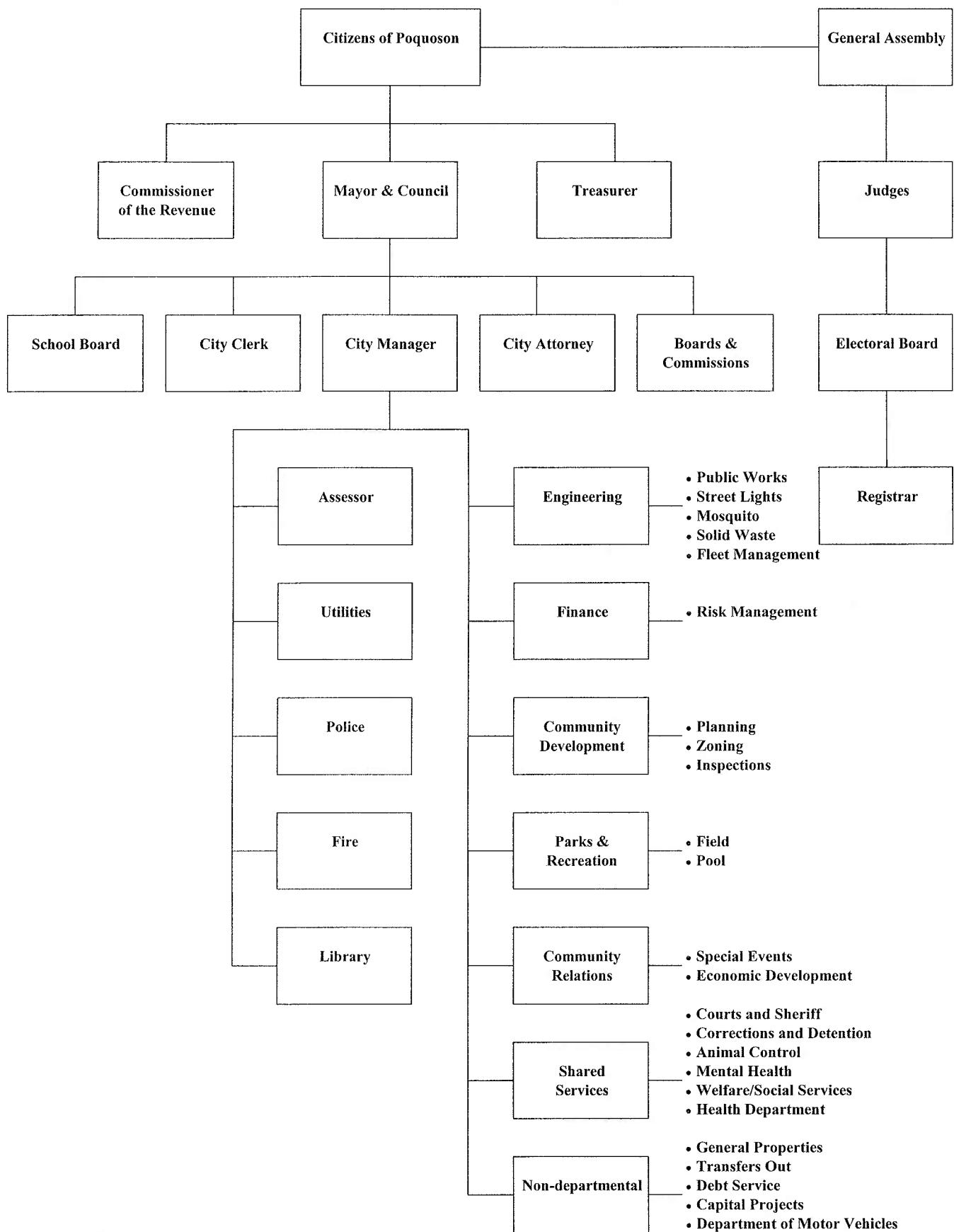
**School Board**

Clifford T. Bowen, Chair  
Regina P. Wightman, Vice Chair  
Deborah Ann Banton  
John A. Costulis  
Kerry Y. Knowlton  
Constance B. Sledd  
Larry R. Marks

**School Officials**

Dr. Jonathan L. Lewis, Superintendent  
Dr. Marilyn F. Barr, Assistant Superintendent of Instruction  
Janet A. Brown, Executive Director of Business and Finance

**CITY OF POQUOSON, VIRGINIA**  
**CITY GOVERNMENT ORGANIZATION CHART**



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Poquoson  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAPRS) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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***City of Poquoson, Virginia***  
***Comprehensive Annual Financial Report***  
***Fiscal Year Ended June 30, 2006***

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# CITY OF POQUOSON

FINANCE DEPARTMENT

500 CITY HALL AVENUE, POQUOSON, VIRGINIA 23662-1996  
(757) 868-3030 TELEPHONE    (757) 868-3101 FAX

October 27, 2006

To the Honorable Mayor Helsel, Members of City Council, and Citizens of the City of Poquoson:

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (the "City") for the fiscal year ended June 30, 2006. An audited annual financial report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

This report consists of management's representations concerning the finances of the City of Poquoson. Consequently, management assumes full responsibility for both the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. To provide a reasonable basis for making these representations, management of the City of Poquoson has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Poquoson's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Poquoson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and the component units of the City of Poquoson.

The City of Poquoson's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Poquoson for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Poquoson's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented on page 1 of this report.

The independent audit of the financial statements of the City of Poquoson was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 92.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Poquoson's MD&A can be found immediately following the report of the independent auditors starting on page 3.

### **Profile of the City of Poquoson**

Poquoson, which had been a part of York County for many years, became a town in 1952 and an independent city in 1975 upon referendum of the citizens. Certain municipal functions continue to be shared with York County.

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country. Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and serves an estimated population of 11,900.

Poquoson is organized under the Council-Manager form of government. The Poquoson City Council is comprised of seven members who are elected by the voters on a non-partisan basis and serve four year staggered terms. The City is divided into three precincts, with each precinct entitled to two representatives. The City Mayor is elected at large. Persons elected to City Council take office on the first day of January following the election.

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The City Manager acts as Chief Executive and Administrative Officer of the City. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all departments (except Constitutional Officers) as well as all other employees of the City.

Virginia state statutes put Virginia schools under the dual control of the State Education Board and a local school board. The State Education Board provides operational procedures, standards of education, and state school aid formulas for partial funding. The City must provide all capital improvement funds, pay debt on school projects and provide any additional operating funds required, but not provided by the State Education Board. The City Council's authority is limited to appointing local school board members and appropriating funds by state-established categories. Local school boards do not have taxing or bond issuance authority.

The City of Poquoson provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City also owns and operates sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 30.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than May 31. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require the special approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 54 of the report.

### **Factors Affecting Economic Condition**

**Local Economy.** General factors affecting the local economy in calendar year 2005 help give a broader perspective of the specific environment within which the City of Poquoson operates.

The City of Poquoson currently has a favorable economic environment and local indicators point to continued stability. While the City of Poquoson's tax base is challenged by few commercial enterprises, Poquoson's close proximity to other cities provides citizens shopping, jobs, and cultural events. The median household income was \$67,664 in 2003 (latest available data). Hampton Roads economy is strong and has a low unemployment rate. In 2005 (latest available data), Poquoson had a 2.8% unemployment rate as compared to a state-wide rate of 3.5% and a national average of 5.1%.

The 2000 census population of 11,566 reflects growth of 5% since the 1990 census. The Planning Department estimates Poquoson's population to be 11,900 in 2005.

The 2005 taxable sales of \$35,631,095 were down 8.6% from the 2004 level. The decrease was due to the Department of Taxation's (TAX) understatement of sales in the third and fourth quarters of 2005, and an overstatement in the first quarter of 2006. TAX implemented a new accounting system and data wasn't reported in the correct period. The City's 1% portion of the local sales tax was not affected.

**Tax Base.** Poquoson is primarily residential in nature and the lack of a strong commercial base in the City places a much higher burden on residents to fund the services of the City compared to neighboring cities who use business tax revenue to fund part of the locality's services. The City's largest source of revenue comes from the real estate tax. While the City's tax rate of \$1.06 per \$100 of assessed value remained constant, the City has had increases in real estate tax revenue primarily due to increased assessments and growth of new buildings in the City. In the past 5 years assessments on housing and commercial property, including tax exempt property, increased by 40.1%. Many properties in the City enjoy waterfront views and access to water and the growth in assessments in these properties have outpaced other properties.

**Long-Term Financial Planning.** In response to Hurricane Isabel which occurred in September 2003, the City received a Federal Emergency Management Agency (FEMA) mitigation grant to help citizens raise their homes to prevent future flooding. The City will be required to provide a 5% match for the private assistance grants. A number of City and School properties were also flooded. The City is researching ways to mitigate future flooding of City and School properties as damaged City and School properties are rebuilt. A combination of FEMA, State Community Development Block Grant (CDBG) funds, and City funds will address the rebuilding of damaged properties.

The City continues to make improvements to the Messick Point Area. In recent years the channel was dredged, and a public pier and parking spaces were constructed. The City is also working towards building restroom facilities in the area. The IDA has purchased several lots in the Messick area and has had an architectural firm lay out a conceptual plan for development. The IDA plans to pursue multi-use zoning in the area and solicitation of a development company.

The City has decided to build a new Fire Station #1 to replace the existing station which was damaged due to flooding from Hurricane Isabel. The City has contracted with Hudson & Associates, PLLC to design the new station; construction is scheduled to take twelve months. Financing has been obtained to construct the new fire station.

In November 2006, the School Board contracted with WM Jordan, Inc. to construct a new Poquoson Elementary School. The present school built in 1952, contains many serious building deficiencies, and fails to meet current education program needs. Construction of the new building, equipment, furnishings, and demolition of the existing elementary school is expected to cost \$18,300,000. The City is in the process of completing financing to pay for the new school building.

**Cash Management Policies and Practices.** The primary government maintains one centralized bank account for the operation of all funds with the exception of the Sewer Fund, the Library Building Agency Fund, and the School system (a component unit), which have separate accounts. All of the City's cash is deposited with the City Treasurer, an elected officer, who is responsible for investing all City funds. City cash is invested primarily in the Local Government Investment Pool, Federal government obligations, and other short-term investments permissible under the Virginia Public Investment Act. The City plans on holding investments until maturity and expects positive earnings in the long-run. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of sewer bond projects. At June 30, 2006, the various cash balances included cash on hand, investments classified as cash, cash on deposit in banks, and restricted cash in the amount of \$20,685,598 for the City and \$2,006,689 for the Schools.

**Risk Management.** The City maintains liability and property coverage through the Virginia Municipal Liability Pool and workers compensation coverage through the Virginia Municipal Group Self-Insurance Association. These are nonprofit, tax exempt associations of Virginia local political subdivisions. Local political subdivisions of the Commonwealth of Virginia eligible to participate in the program include cities, towns, counties, school systems and other local government agencies.

**Pension Benefits.** The City and Schools contribute to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions. For more information on the defined benefit retirement plan, see page 51 of the notes to the basic financial statements and Exhibit L on page 58.

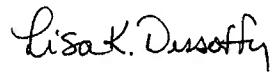
**Awards and Acknowledgements.** The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poquoson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the nineteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2007. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, the Treasurer's Office and our Certified Public Accountants, Goodman & Company, LLP. Credit is also given to City Council for their interest and support in planning and conducting the operations of the City of Poquoson in a responsible and progressive manner.

Respectfully submitted,



Lisa K. Dessoffy, CPA  
Director of Finance



Charles W. Burgess, Jr.  
City Manager

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## *Report of Independent Auditors*

Certified Public Accountants  
Specialized Services  
Business Solutions

Honorable Mayor and Members of City Council  
*City of Poquoson, Virginia*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia*, as of and for the year ended June 30, 2006, which collectively comprise the *City of Poquoson, Virginia*'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Poquoson, Virginia*'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the *City of Poquoson, Virginia*'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 17 and the other required supplementary information included at pages 54 through 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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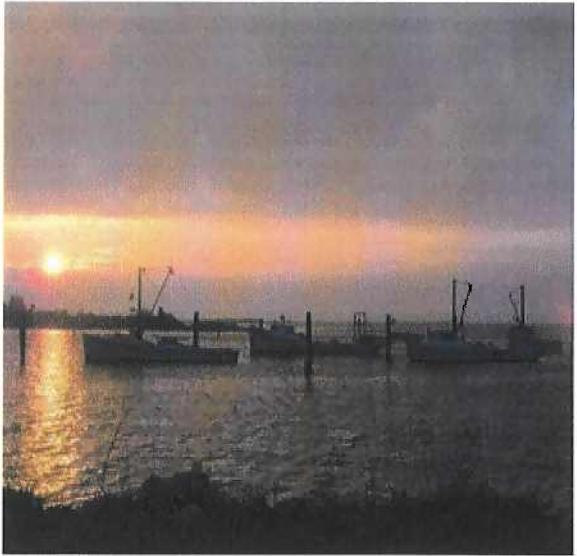
Honorable Mayor and Members of City Council  
*City of Poquoson, Virginia*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Poquoson, Virginia's* basic financial statements. The information listed as other supplementary information and compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Goodman & Company, LLP.*

Newport News, Virginia  
October 27, 2006



## **City of Poquoson, Virginia**

**500 City Hall Avenue  
Poquoson, Virginia 23662**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Financial Highlights**

#### **Overview of the Financial Statements**

#### **Government-Wide Financial Analysis**

#### **Financial Analysis of the Government's Funds**

#### **General Fund Budgetary Highlights**

#### **Capital Asset and Debt Administration**

#### **Economic Factors and Next Year's Budgets and Rates**

#### **Requests for Information**

## **Management's Discussion and Analysis**

**Fiscal Year July 1, 2005 — June 30, 2006**

As management of the City of Poquoson, we offer readers of the City of Poquoson's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages vi through x of this report.

### **Financial Highlights**

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2006 by \$22,341,659 (net assets). Of this amount, \$6,734,535 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,977,918. Most of the increase is attributable to new construction in residential real estate, which resulted in increased real property taxes; increases in other local taxes due to commercial growth in the City; and scrutiny of City expenditures.
- As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$19,707,959, of which \$4,476,966 is available to spend at the City's discretion.
- As of June 30, 2006, unreserved fund balance for the General Fund was \$4,550,535, or 25.5% of total General Fund expenditures, and 14.8% of total General Fund and School expenditures (net of transfers).
- The City of Poquoson's total debt outstanding at June 30, 2006 was \$37,141,107, an increase of \$12,751,141 from the prior year. During the year, the City borrowed additional money for the new elementary school and fire station.

## **Overview of the Financial Statements**

The Comprehensive Annual Financial Report consists of four (4) sections: the introductory section, the financial section, the statistical section, and the compliance section. This discussion and analysis serves as an introduction to the City of Poquoson's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 in FY 2003, the City now presents financial information with two different perspectives. The City continues to present the fund financial statements, which presents fund-type information on a current financial resource basis. With GASB Statement No. 34 the City also presents government-wide financial statements, which provide both long-term and short-term information about the City's overall financial status. During FY 2006, the City adopted GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The objective of this new Statement is to improve the understandability and usefulness of the information presented as supplementary information in the statistical section.

**Government-Wide Financial Statements.** The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the City of Poquoson's finances in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City of Poquoson's assets and liabilities, with the difference between the two reported as *Net Assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Poquoson is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Poquoson that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Poquoson include general government and administration; judicial; public safety; public works; health and welfare; recreation and cultural; community development; and grants. The business-type activities of the City of Poquoson include a Sewer Fund, a Parks and Recreation Fund, and a Solid Waste Fund.

The government-wide financial statements include not only the City of Poquoson itself (known as the primary government), but also a legally separate school system, Poquoson Public Schools, and a legally separate Poquoson Industrial Development Authority (IDA) for which the City of Poquoson is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B of this report.

**Fund Financial Statements.** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Poquoson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Poquoson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds does not address the long-term focus of the government-wide financial statements, information is presented on pages 21 and 23 which reconciles the differences between governmental funds and governmental activities.

The City of Poquoson maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Debt Service Fund, the Capital Projects Fund, and the Grant Fund.

The governmental funds financial statements can be found on Exhibits C and D of this report.

The City of Poquoson adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget on Exhibit K.

**Proprietary Funds.** The City of Poquoson maintains three different types of proprietary funds. Enterprise funds provide both long-term and short-term information on business-type activities in the government-wide financial statements. The City of Poquoson uses enterprise funds to account for its Sewer Operations Fund, Parks and Recreation Fund, and Solid Waste Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Poquoson's departments. Because this service predominantly benefits governmental rather than business-type functions, the Fleet Management internal service fund has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on Exhibits E, F and G of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of the Friends of the Library, a party outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Poquoson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund statement can be found on Exhibit H of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-53 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City of Poquoson including financial information on the School Board component unit. Supplementary information can be found on pages 54-66 of this report.

## Government-Wide Financial Analysis

### Summary of Statement of Net Assets

June 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Current and other assets	\$20,797,849	\$6,861,870	\$1,942,185	\$2,094,264	\$22,740,034	\$8,956,134
Capital assets	20,976,980	19,493,911	17,271,578	17,639,809	38,248,558	37,133,720
Other noncurrent assets	12,642	13,973	30,312	45,155	42,954	59,128
<b>Total assets</b>	<b>41,787,471</b>	<b>26,369,754</b>	<b>19,244,075</b>	<b>19,779,228</b>	<b>61,031,546</b>	<b>46,148,982</b>
Current and other liabilities	1,942,797	2,194,211	1,022,463	1,026,902	2,965,260	3,065,014
Long-term liabilities	24,696,239	10,830,926	11,028,388	11,733,202	35,724,627	22,720,227
<b>Total liabilities</b>	<b>26,639,036</b>	<b>13,025,137</b>	<b>12,050,851</b>	<b>12,760,104</b>	<b>38,689,887</b>	<b>25,785,241</b>
Net assets:						
Invested in capital assets,						
Net of related debt	10,104,292	7,579,069	5,502,832	5,164,685	15,607,124	12,743,754
Unrestricted	5,044,143	5,765,548	1,690,392	1,854,439	6,734,535	7,619,987
<b>Total net assets</b>	<b>\$15,148,435</b>	<b>\$13,344,617</b>	<b>\$7,193,224</b>	<b>\$7,019,124</b>	<b>\$22,341,659</b>	<b>\$20,363,741</b>

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$22,341,659, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$15,607,124. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net assets of \$6,734,535 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Poquoson is able to report positive balances in all three categories of net assets, both for the governmental and business-type activities.

**Governmental Activities.** The government's net assets increased by \$1,977,918 during FY 2006. The governmental activities and the business-type activities increased by \$1,803,818 and \$174,100, respectively. The majority of increases in the governmental activities represent City investments in capital assets.

The City continues to recover from widespread damage caused by Hurricane Isabel in FY 2004. The majority of damage came in the form of flooding, where the storm surge covered more than half of the City. The flood and wind damage caused extensive damage to both citizens' property and local government property. Both Federal and State grants have been obtained to elevate citizens' homes to prevent future flooding. The City will be required to provide a 5% match for these grants.

## Summary of Changes in Net Assets

June 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$345,908	\$243,585	\$2,063,396	\$1,937,088	\$2,409,304	\$2,180,673
Operating grants and contributions	2,122,034	2,705,293	-	-	2,122,034	2,705,293
Capital grants and contributions	342,400	1,187,904	-	-	342,400	1,187,904
General revenues:						
Real estate and personal property						
Taxes	13,053,028	12,489,445	-	-	13,053,028	12,489,445
Other local taxes	2,792,592	2,635,723	-	-	2,792,592	2,635,723
Reimbursements from other agencies	2,035,707	1,830,047	-	-	2,035,707	1,830,047
Miscellaneous	75,005	116,511	180,100	138,553	255,105	255,064
Sewer availability fees		-	360,000	587,000	360,000	587,000
Unrestricted investment earnings	415,638	119,801	23,393	23,888	439,031	143,689
<b>Total revenues</b>	<b>21,182,312</b>	<b>21,328,309</b>	<b>2,626,889</b>	<b>2,686,529</b>	<b>23,809,201</b>	<b>24,014,838</b>
<b>Expenses:</b>						
General government	2,379,161	1,716,083	-	-	2,379,161	1,716,083
Judicial	238,689	180,184	-	-	238,689	180,184
Public safety	4,657,932	4,750,969	-	-	4,657,932	4,750,969
Public works	1,327,111	1,694,612	-	-	1,327,111	1,694,612
Health and welfare	821,356	840,310	-	-	821,356	840,310
Education	7,426,666	7,087,769	-	-	7,426,666	7,087,769
Parks, recreation, cultural	1,030,174	1,343,537	-	-	1,030,174	1,343,537
Community development	817,214	563,788	-	-	817,214	563,788
Interest and fees on long-term debt	462,508	500,461	-	-	462,508	500,461
Nondepartmental	-	130,551	-	-	-	130,551
Sewer	-	-	1,554,446	1,537,870	1,554,446	1,537,870
Parks and Recreation	-	-	587,701	545,799	587,701	545,799
Solid Waste	-	-	528,325	475,269	528,325	475,269
<b>Total expenses</b>	<b>19,160,811</b>	<b>18,808,264</b>	<b>2,670,472</b>	<b>2,558,938</b>	<b>21,831,283</b>	<b>21,367,202</b>
<b>Change in net assets before transfers</b>	<b>2,021,501</b>	<b>2,520,045</b>	<b>(43,583)</b>	<b>127,591</b>	<b>1,977,918</b>	<b>2,647,636</b>
<b>Transfers</b>	<b>(217,683)</b>	<b>(127,800)</b>	<b>217,683</b>	<b>127,800</b>	<b>-</b>	<b>-</b>
<b>Increase in net assets</b>	<b>1,803,818</b>	<b>2,392,245</b>	<b>174,100</b>	<b>255,391</b>	<b>1,977,918</b>	<b>2,647,636</b>
<b>Net assets, Beginning of Year</b>	<b>13,344,617</b>	<b>10,952,372</b>	<b>7,019,124</b>	<b>6,763,733</b>	<b>20,363,741</b>	<b>17,716,105</b>
<b>Net assets, End of Year</b>	<b>\$15,148,435</b>	<b>\$13,344,617</b>	<b>\$7,193,224</b>	<b>\$7,019,124</b>	<b>\$22,341,659</b>	<b>\$20,363,741</b>

The City's largest revenue source is general property taxes.

	FY 2006	FY 2005
Real estate tax revenue	\$10,877,537	\$10,574,091
Public service corporation property taxes	137,444	105,318
Personal property taxes	1,888,246	1,682,523
Penalties and interest	149,801	127,513
<b>Total</b>	<b>\$13,053,028</b>	<b>\$12,489,445</b>

Real estate revenue increases in FY 2006 were due to growth and new buildings. The City's real estate property tax assessments were \$1,025,497,078 and \$1,002,511,357 for FY 2006 and FY 2005, respectively. The City's real estate tax rate was \$1.06 per \$100 of assessed value in both FY 2006 and FY 2005.

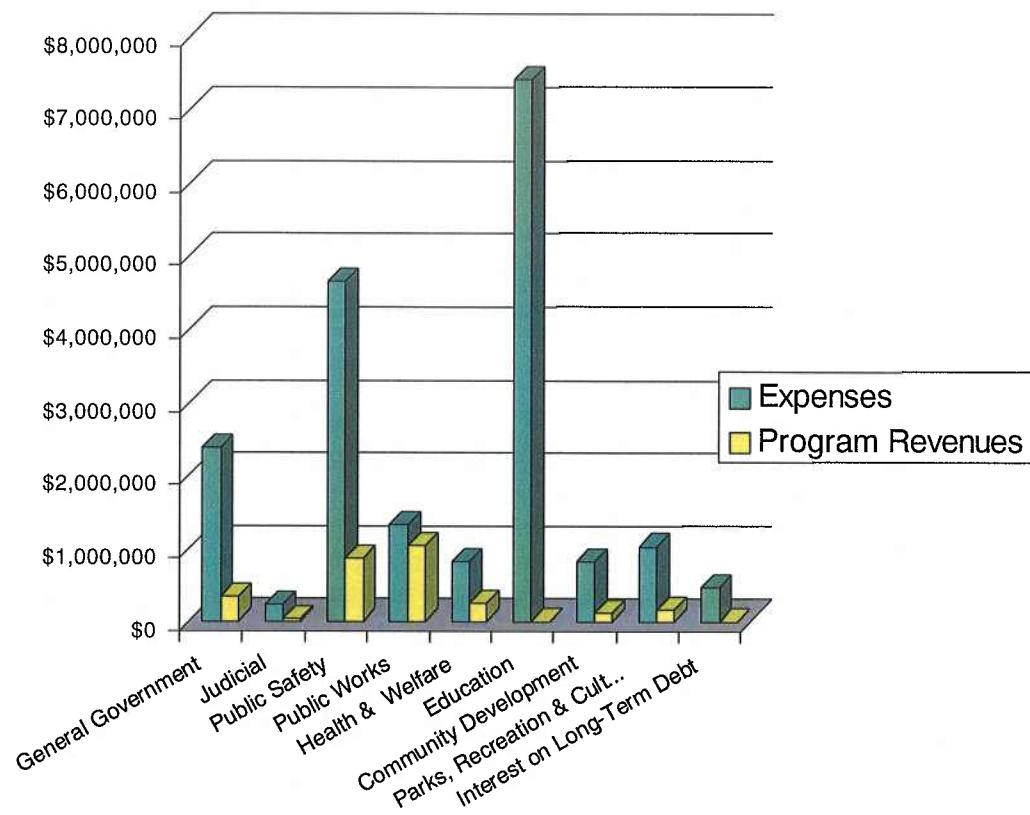
The City's personal property tax assessments were \$137,528,873 and \$131,687,115 for FY 2006 and FY 2005 respectively. The City's personal property tax rate was \$3.85 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and \$1.06 per \$100 of assessed value for mobile homes. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was \$2,018,257 and \$1,809,159 for FY 2006 and FY 2005, respectively, and is classified as reimbursements from other agencies on the Statement of Activities.

Other local taxes were \$2,792,592 and \$2,635,723 for FY 2006 and FY 2005, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

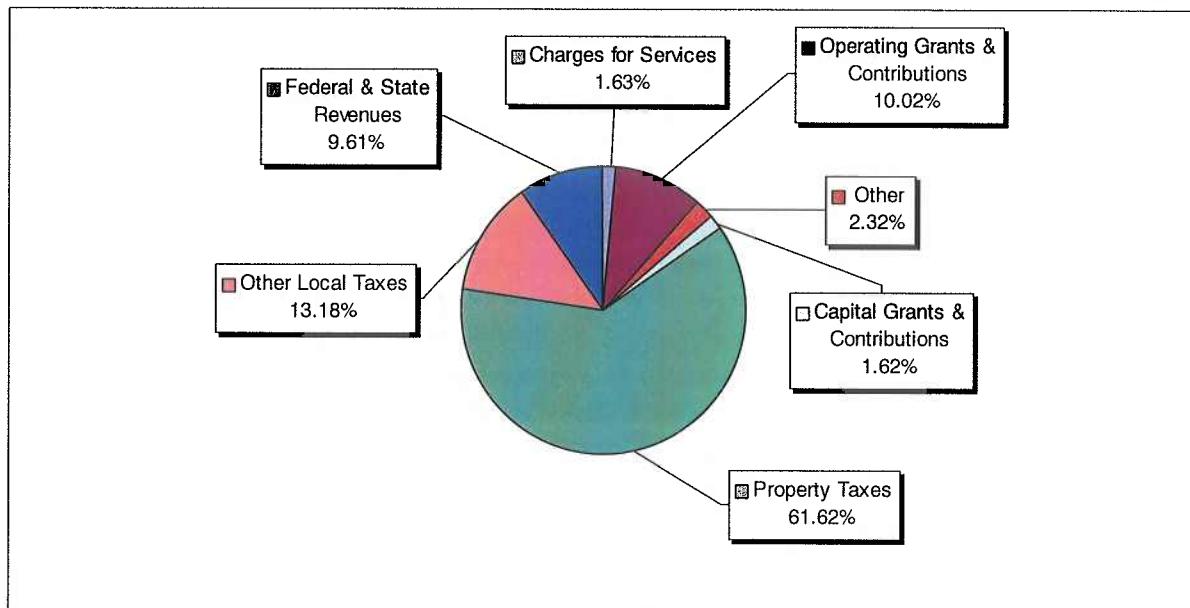
Operating grants and contributions and capital grants and contributions were \$2,464,434 and \$3,893,197 for FY 2006 and FY 2005, respectively. The 36.7% decrease was due to several public works and parks and recreation grants received in FY 2005.

For FY 2006, expenses for governmental activities totaled \$19,160,811, including a net payment of \$7,426,666 to the School Board component unit and a \$147,530 payment to the IDA component unit. For FY 2005, expenses for governmental activities totaled \$18,808,264, including a net payment of \$7,087,769 to the School Board component unit and a \$59,900 payment to the IDA component unit. The School Board's increase related mainly to increased personnel and benefit costs. The City's increases related mainly to personnel and capital projects. The City experienced increased employee benefit costs and hired four additional employees (two police officers, Emergency Deputy Coordinator, and a Building Inspector); one part-time Finance position was converted to full-time and the Library's part-time staff was increased. The majority of the increase in City capital expenditures was related to the construction of the new elementary school. Several homes adjacent to the school site were purchased so that required access and land was available for the school construction project. The City continues to work on drainage projects throughout the City and projects at South Lawson Park and Messick Point.

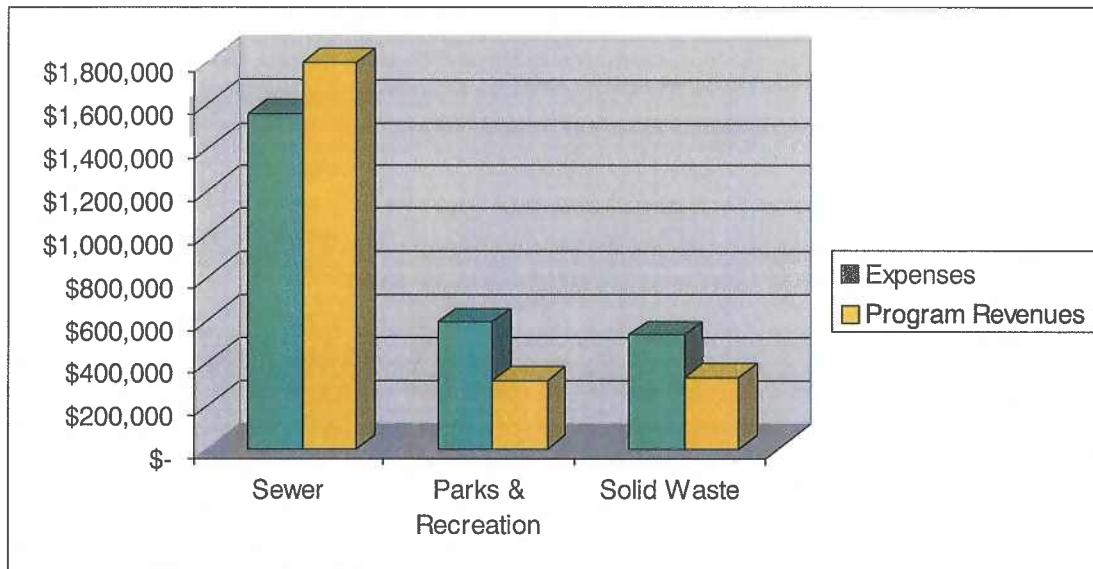
## Expenses and Program Revenues – Governmental Activities



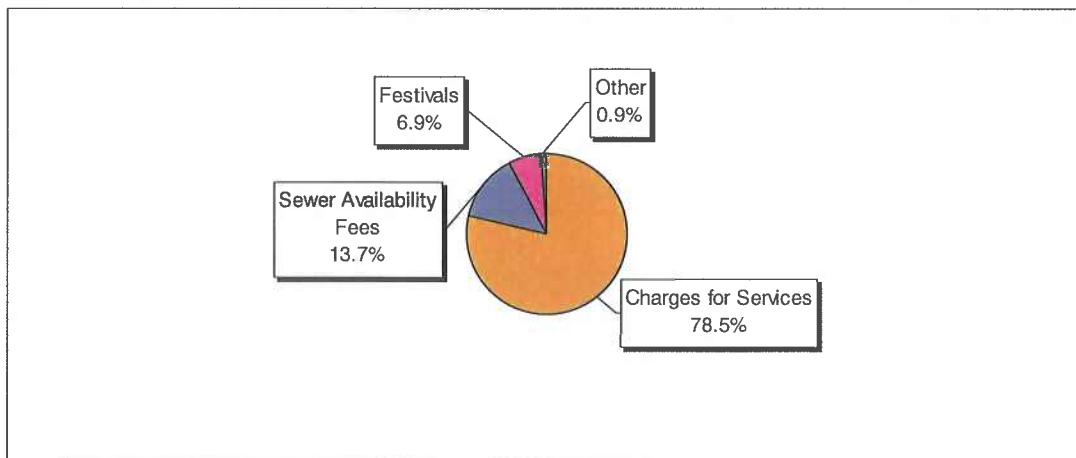
## Revenues by Sources – Governmental Activities



## Expense and Program Revenues – Business-Type Activities



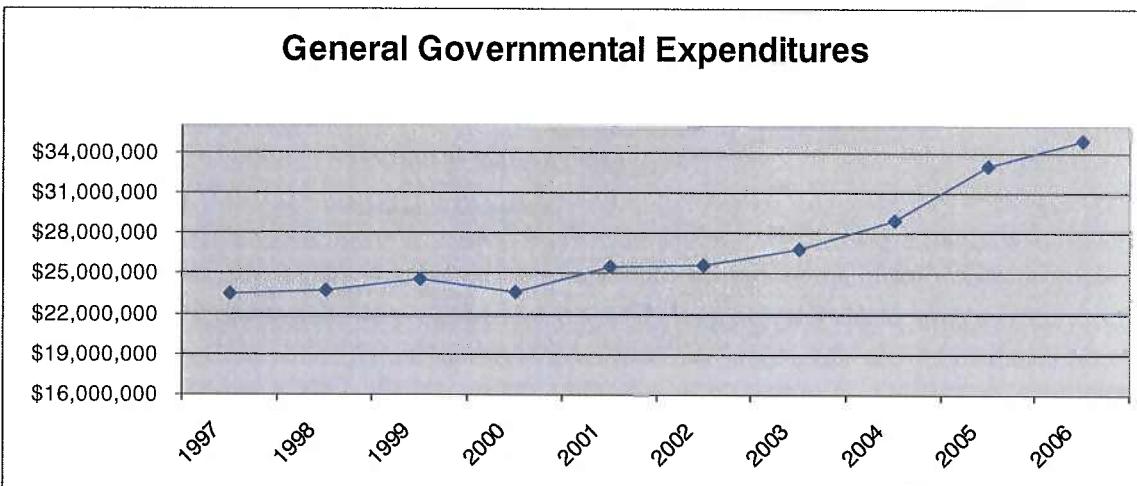
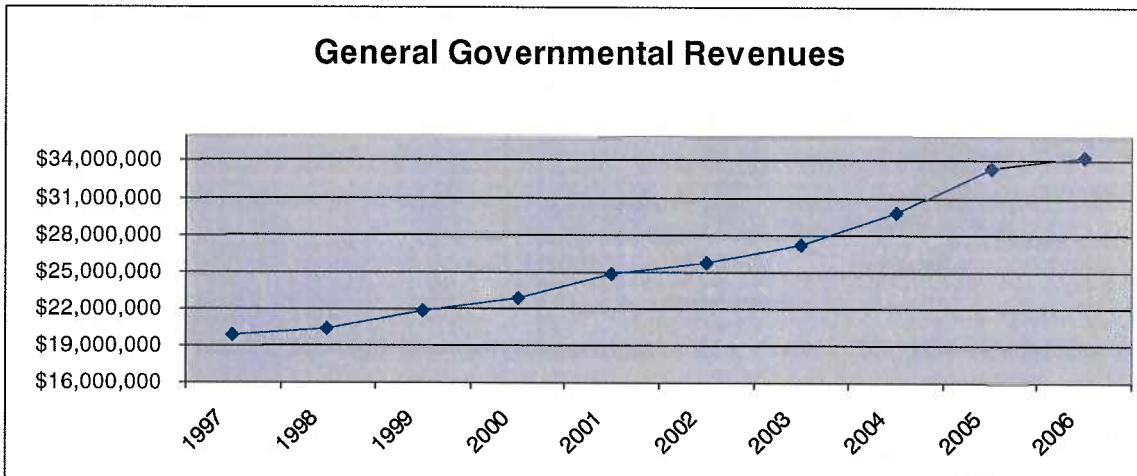
## Revenues by Source – Business-Type Activities



**Business-Type Activities.** Business-type activities decreased the City's net assets before transfers by \$43,583 and increased it by \$174,100 after transfers. The business-type activities had a net gain in the Sewer Operations Fund, while the Parks and Recreation Fund and the Solid Waste Fund had net operating losses. In the past several years, the Sewer Fund issued debt for significant sewer expansion projects, which increased sewer rates to pay for the additional debt. In order to keep the sewer usage rates from increasing significantly, Council has budgeted to use a portion of net assets. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but has increasing expenses. The Parks and Recreation Fund had net losses over the last few years, indicating the need to either raise user fees or to receive supplemental government funds. The Solid Waste Fund utilizes a pay-as-you throw green bag system, which funds trash pickup and disposal, recycling, and hazardous materials collection. The City supplements the bulky item and landscape trash pickup in the Solid Waste Fund.

## **Financial Analysis of the Government's Funds**

Below is a summary of general governmental revenues and expenditures over a 10 year period. Amounts include the City's General, Debt Service, Grant, and Capital Projects Funds, and the School's General and Special Revenue Funds. Although FY 2006 expenditures exceeded revenue, the City benefited from the previous four fiscal years when revenues exceeded expenditures.



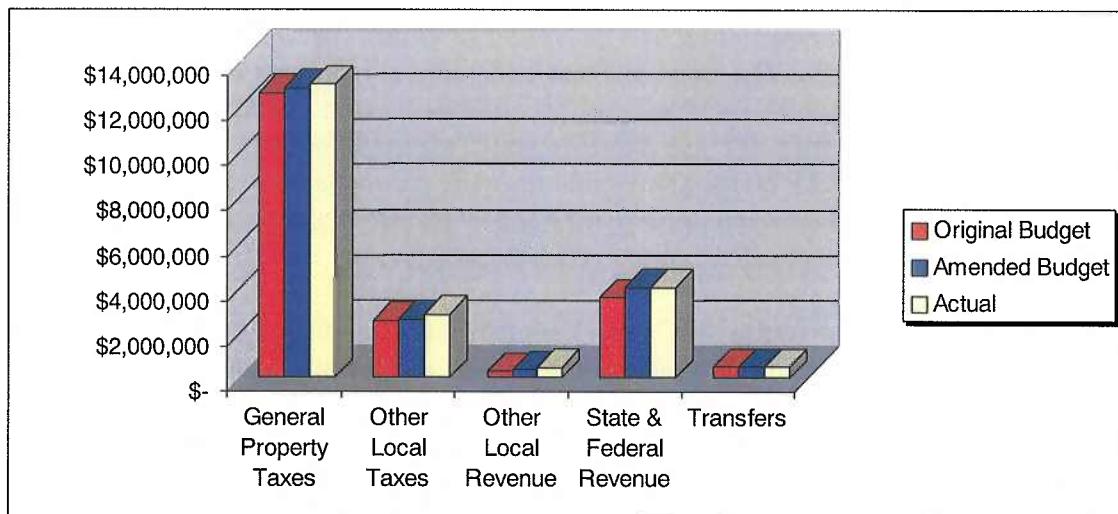
## **General Fund Budgetary Highlights**

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$1,745,033 between the original budget and the final amended budget can be briefly summarized as follows:

- \$1,085,204 additional transfers to the Capital Projects Fund were budgeted to pay for the purchase of four homes adjacent to the school construction project, playground equipment, a school bus, the library automation system and the Lodge Road drainage study.
- \$60,200 additional transfers to the Industrial Development Authority were budgeted to pay for additional interest costs on the Authority's line of credit and to pay for additional development costs for the Big Woods.
- \$59,450 additional transfers to the Parks and Recreation Fund were budgeted to pay for ongoing deficits in the fund and to cover additional costs for the pool dome.
- \$251,537 of expenditures were budgeted for additional revenue received from police seizure activities.
- \$98,904 of expenditures were budgeted to contribute to the School Board for various capital purchases using fund balance.
- \$112,368 of expenditures were budgeted for additional personnel costs for two new positions.
- \$77,370 expenditures were budgeted using a variety of additional revenues.

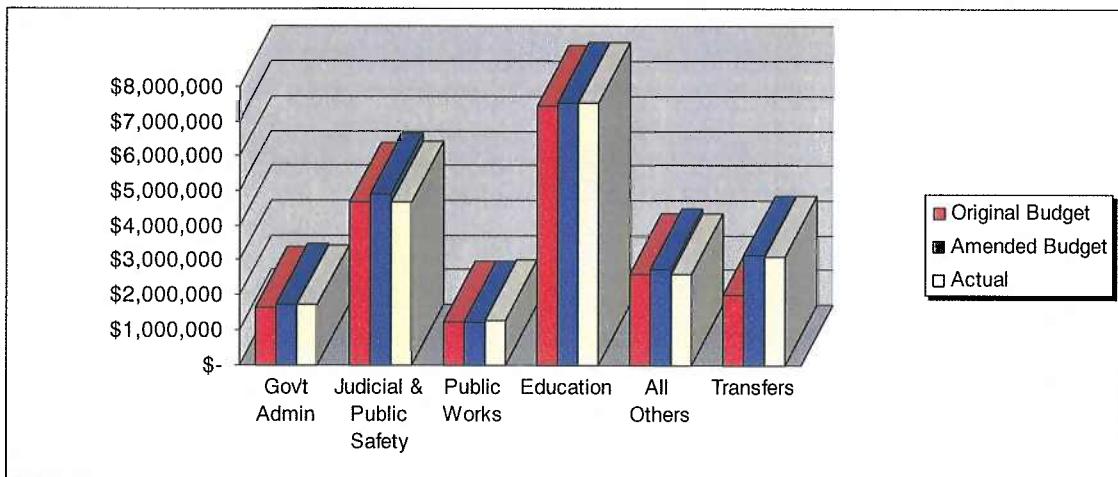
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

**General Fund Revenue  
Comparison of Budget to Actual**



The City's actual revenue exceeded the amended budget by \$453,655. The City had higher than expected revenues for general property taxes and other local taxes. The City is conservative in budgeting tax revenues and typically has some overage.

**General Fund Expenditures  
Comparison of Budget to Actual**



As reflected above, actual General Fund expenditures were \$362,675 or 1.7% below the amended budget. The City budgeted to use \$1,030,099 of fund balance, but due to revenues exceeding budget and expenditures under budget, the fund balance only decreased by \$159,892.

The budgetary comparison can be found on Exhibit K. For budgetary purposes, the City includes encumbrances outstanding at year-end in expenditures, which is not in accordance with generally accepted accounting principals (GAAP). A reconciliation of budgetary basis to GAAP is also shown on Exhibit K.

## **Capital Projects Fund**

The Capital Projects Fund is used by the City to account for the acquisition and construction of major capital projects and large equipment purchases for the general government. A major source of funding for Capital Projects is a transfer from the General Fund. The Capital Projects Fund also received State and community grants for projects.

During FY 2006, capital projects expenditures of \$2,447,596 included design costs for the new elementary school, purchase of four homes adjacent to the school construction site, large equipment purchases, highway and drainage improvements, park improvements, and public safety equipment.

## **Capital Assets and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities amounted to \$38,248,558 and \$37,133,720 (net of accumulated depreciation) for FY 2006 and FY 2005, respectively. The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure is planned to be capitalized in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the Schools to allocate a portion of their asset to the City, if the City has outstanding debt on the School building.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Land	\$2,983,858	\$2,588,978	\$243,216	\$243,216	\$3,227,074	\$2,832,194
Construction in progress	708,856	718,843	-	-	708,856	718,843
Buildings	5,056,732	4,425,336	17,431	20,543	5,074,163	4,445,879
Infrastructure	1,160,620	1,213,387	-	-	1,160,620	1,213,387
Machinery and equipment	2,713,374	1,980,121	585,398	333,724	3,298,772	2,313,845
Sewer System	-	-	16,425,533	17,042,326	16,425,533	17,042,326
Allocated school buildings	8,353,540	8,567,246	-	-	8,353,540	8,567,246
Total	\$20,976,980	\$19,493,911	\$17,271,578	\$17,639,809	\$38,248,558	\$37,133,720

**Debt Administration.** Total outstanding general obligation debt at June 30, 2006 was \$37,141,107, of which \$25,372,361 is considered to be net direct tax supported debt. Included in the total is \$21,402,541 in bonds and leases, and \$3,969,820 in State Literary Loans. The remaining \$11,768,746 is bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund. On the government-wide financial statements, long-term liabilities are netted against deferred refunding charges and bond premiums of \$155,434 in governmental activities and \$280,343 business-type activities.

During FY 2006, the City borrowed an additional \$14,500,000 to provide financing for the new elementary school and fire station.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2006 debt limitation for the City of Poquoson is \$103,730,314, which is significantly in excess of the City of Poquoson's \$37,576,884 outstanding net direct bonded debt. The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to municipal management, citizens and investors. This data for the past two years is presented below:

**Net Direct Tax Supported Debt  
General Governmental Activities**

	<b>FY 2006</b>	<b>FY 2005</b>
Net direct bonded debt	\$25,527,795	\$12,086,638
Ratio of outstanding direct debt to assessed value	2.46%	1.05%
Net debt per capita	\$2,207	\$1,045

**Net Direct Tax Supported Debt  
Including Business-Type Funds**

	<b>FY 2006</b>	<b>FY 2005</b>
Net direct bonded debt	\$37,576,884	\$24,877,654
Ratio of outstanding direct debt to assessed value	3.63%	2.16%
Net debt per capita	\$3,248	\$2,151

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in notes 7, 8 and 9 on pages 41-48 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The FY 2007 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 2.8% compared to a state-wide rate of 3.5% and a national average of 5.1%.
- FY 2007 is a reassessment year, resulting in over a 50% increase in real estate assessed values.
- The real estate tax rate of \$1.06 per \$100 of assessed value was reduced to \$.81 per \$100 of assessed value, due to the large increase in real estate values.
- Other local taxes have been trending upwards for the last several years.

Expenditures for the FY 2007 budget had more funding than prior years.

- The Schools received an increase of 8.6% and 5.7% in State and City funds, respectively for FY 2007.
- The Schools funded a 5% salary increase for teachers, 4% increase for all other staff, and a one-dollar-per-hour increase as a market adjustment for para-educators, clerical staff and nurses; the City funded an average salary increase of 5% for staff. Both the Schools and the City budgeted for significant increases in retirement costs, health insurance costs, and the Group Life Premium was reinstated.
- The City received several grants to help citizens raise their home to prevent future flooding.

The City still has several outstanding issues to complete from Hurricane Isabel in September 2003. The City has contracted with Hudson & Associates to design a new Fire Station #1, which suffered flood damage from Hurricane Isabel. Financing has been obtained to construct the new fire station. The School Board has contracted with WM Jordan, Inc. to construct the new Poquoson Elementary School. The City is in the process of completing financing to pay for the new elementary school.

The City has received a Federal Emergency Management Agency (FEMA) mitigation grant, and two Community Development Block Grants (CDBG) to elevate the homes damaged by Hurricane Isabel, and to reimburse citizens for their repair costs. The City is hopeful that these grant funds will help citizens that had more than 50% damage to their homes from the storm surge raise their homes to an elevation of one foot above the required flood elevation.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Poquoson's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Poquoson  
Lisa K. Dessoify, CPA  
Director of Finance  
500 City Hall Avenue  
Poquoson, VA 23662

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*City of Poquoson, Virginia**Statement of Net Assets***June 30, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 19,048,254	\$ 1,637,344	\$ 20,685,598	\$ 2,022,792
Property taxes receivable - net	493,280	-	493,280	-
Receivables-net	151,213	284,276	435,489	-
Due from component units	23	-	23	-
Due from other governmental units	1,077,982	-	1,077,982	474,195
Inventory	26,697	3,230	29,927	8,378
Prepaid items	400	13,173	13,573	-
Notes and interest receivable	-	4,162	4,162	-
Capital assets				
Land and construction in process	3,692,714	243,216	3,935,930	2,418,123
Other capital assets - net	17,284,266	17,028,362	34,312,628	4,132,458
Capital assets -net	20,976,980	17,271,578	38,248,558	6,550,581
Other assets	12,642	30,312	42,954	-
	\$ 41,787,471	\$ 19,244,075	\$ 61,031,546	\$ 9,055,946
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 572,425	\$ 100,781	\$ 673,206	\$ 2,217,694
Accrued interest	179,973	151,453	331,426	-
Line of credit	-	-	-	1,859,091
Due to primary government	-	-	-	23
Unearned revenue	52,271	-	52,271	-
Noncurrent liabilities:				
Due within one year	1,138,128	770,229	1,908,357	62,273
Due in more than one year	24,696,239	11,028,388	35,724,627	138,893
<b>Total liabilities</b>	<b>26,639,036</b>	<b>12,050,851</b>	<b>38,689,887</b>	<b>4,277,974</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	10,104,292	5,502,832	15,607,124	4,648,157
Unrestricted	5,044,143	1,690,392	6,734,535	129,815
<b>Total net assets</b>	<b>15,148,435</b>	<b>7,193,224</b>	<b>22,341,659</b>	<b>4,777,972</b>
	\$ 41,787,471	\$ 19,244,075	\$ 61,031,546	\$ 9,055,946

*The accompanying notes are an integral part of the basic financial statements.*

*Statement of Activities*

Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
			Governmental Activities	Business-Type Activities	Total	Component Units		
<b>Primary Government</b>								
Government activities:								
General government and administration	\$ 2,379,161	\$ 104,747	\$ 228,700	\$ -	\$ (2,045,714)	\$ -	\$ (2,045,714)	\$ -
Judicial	238,689	36,268	-	-	(202,421)	-	(202,421)	-
Public safety	4,657,932	127,129	577,671	152,035	(3,801,097)	-	(3,801,097)	-
Public works	1,327,111	-	1,031,242	6,568	(289,301)	-	(289,301)	-
Health and welfare	821,356	-	261,557	-	(559,799)	-	(559,799)	-
Education	7,426,666	-	-	-	(7,426,666)	-	(7,426,666)	-
Parks, recreation, cultural	1,030,174	24,367	20,115	113,797	(871,895)	-	(871,895)	-
Community development	817,214	53,397	2,749	70,000	(691,068)	-	(691,068)	-
Interest and fees on long-term debt	462,508	-	-	-	(462,508)	-	(462,508)	-
<b>Total governmental activities</b>	<b>19,160,811</b>	<b>345,908</b>	<b>2,122,034</b>	<b>342,400</b>	<b>(16,350,469)</b>	<b>-</b>	<b>(16,350,469)</b>	<b>-</b>
Business-type activities:								
Sewer	1,554,446	1,413,403	-	-	-	(141,043)	(141,043)	-
Parks and recreation	587,701	315,082	-	-	-	(272,619)	(272,619)	-
Solid waste	528,325	334,911	-	-	-	(193,414)	(193,414)	-
<b>Total business-type activities</b>	<b>2,670,472</b>	<b>2,063,396</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(607,076)</b>	<b>(607,076)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 21,831,283</b>	<b>\$ 2,409,304</b>	<b>\$ 2,122,034</b>	<b>\$ 342,400</b>	<b>(16,350,469)</b>	<b>(607,076)</b>	<b>(16,957,545)</b>	<b>-</b>
<b>Component Units</b>								
Poquoson Public Schools	\$ 20,614,907	\$ 563,308	\$ 11,939,407	\$ -	-	-	-	(8,112,192)
Industrial Development Authority	174,264	-	-	-	-	-	-	(174,264)
<b>Total component units</b>	<b>\$ 20,789,171</b>	<b>\$ 563,308</b>	<b>\$ 11,939,407</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,286,456)</b>
<b>General Revenues:</b>								
Real estate and personal property taxes					13,053,028	-	13,053,028	-
Other local taxes					2,792,592	-	2,792,592	-
Payments from City of Poquoson					-	-	-	7,702,611
Reimbursements from other agencies					2,035,707	-	2,035,707	-
Miscellaneous					75,005	180,100	255,105	333,587
Charges for services					-	360,000	360,000	-
Unrestricted investment earnings					415,638	23,393	439,031	-
<b>Transfers</b>					(217,683)	217,683	-	-
<b>Total general revenues, transfers and miscellaneous</b>					<b>18,154,287</b>	<b>781,176</b>	<b>18,935,463</b>	<b>8,036,198</b>
<b>Change in net assets</b>					<b>1,803,818</b>	<b>174,100</b>	<b>1,977,918</b>	<b>(250,258)</b>
<b>Net assets - beginning of year</b>					<b>13,344,617</b>	<b>7,019,124</b>	<b>20,363,741</b>	<b>5,028,230</b>
<b>Net assets - end of year</b>					<b>\$ 15,148,435</b>	<b>\$ 7,193,224</b>	<b>\$ 22,341,659</b>	<b>\$ 4,777,972</b>

*City of Poquoson, Virginia****Balance Sheet - Governmental Funds*****June 30, 2006**

Assets	General	Debt Service	Capital Projects	Grant	Total Governmental Funds
Cash and cash equivalents	\$ 3,814,081	\$ 80,000	\$ 1,376,535	\$ -	\$ 5,270,616
Reserved cash	-	-	13,752,527	-	13,752,527
Property taxes receivable - net	493,280	-	-	-	493,280
Other receivables	151,131	-	-	-	151,131
Due from component units	23	-	-	-	23
Due from other governmental units	1,077,982	-	-	-	1,077,982
Prepays	400	-	-	-	400
Inventory	3,293	-	-	-	3,293
	<b>\$ 5,540,190</b>	<b>\$ 80,000</b>	<b>\$ 15,129,062</b>	<b>\$ -</b>	<b>\$ 20,749,252</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 451,006	-	\$ 103,405	\$ 2,519	\$ 556,930
Bank overdraft	-	-	-	71,050	71,050
Deferred revenue	413,313	-	-	-	413,313
<b>Total liabilities</b>	<b>864,319</b>	<b>-</b>	<b>103,405</b>	<b>73,569</b>	<b>1,041,293</b>
<b>Fund Balances</b>					
Fund balances:					
Reserved for encumbrances	125,336	-	-	-	125,336
Reserved for debt service	-	80,000	-	-	80,000
Reserved for construction - bond principal	-		13,433,589	-	13,433,589
Reserved for construction - bond earnings	-	-	318,938	-	318,938
Unreserved:					
Designated for fiscal year 2007 budget	-	-	1,273,130	-	1,273,130
Unreserved and undesignated	4,550,535	-	-	(73,569)	4,476,966
<b>Total fund balances</b>	<b>4,675,871</b>	<b>80,000</b>	<b>15,025,657</b>	<b>(73,569)</b>	<b>19,707,959</b>
	<b>\$ 5,540,190</b>	<b>\$ 80,000</b>	<b>\$ 15,129,062</b>	<b>\$ -</b>	<b>\$ 20,749,252</b>

*City of Poquoson, Virginia**Balance Sheet - Governmental Funds***June 30, 2006****Reconciliation of the Governmental Funds Balance  
Sheet to the Statement of Net Assets**

<b>Total fund balances - governmental funds</b>	\$ 19,707,959
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	20,976,980
Other long-term assets are not financial resources and, therefore, are deferred in the funds.	361,041
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	106,404
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(179,973)
Accrued compensated absences	(442,368)
Long-term liabilities, including bonds payable, net of capitalized bond issuance costs and deferred bond issuance charge, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(25,381,608)</u>
<b>Total net assets - governmental activities</b>	<b><u>\$ 15,148,435</u></b>

*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Statement of Revenues, Expenditures, and Changes in  
Fund Balances - Governmental Funds***Year Ended June 30, 2006**

	General	Debt Service	Capital Projects	Grant	Total Governmental Funds
<b>Revenues</b>					
General property taxes	\$ 13,012,958	\$ -	\$ -	\$ -	\$ 13,012,958
Other local taxes	2,792,592	-	-	-	2,792,592
Permits, privilege fees and regulatory licenses	173,401	-	-	-	173,401
Fines and forfeitures	37,283	-	-	-	37,283
Revenue from use of money and property	184,677	-	318,938	-	503,615
Charges for services	29,694	-	-	-	29,694
Intergovernmental	4,370,586	-	401,241	126,489	4,898,316
Miscellaneous	36,188	-	1,193	-	37,381
<b>Total revenues</b>	<b>20,637,379</b>	<b>-</b>	<b>721,372</b>	<b>126,489</b>	<b>21,485,240</b>
<b>Expenditures</b>					
Current:					
General government and administration	1,729,268	-	-	24,955	1,754,223
Public safety and judicial	4,668,053	-	-	189,109	4,857,162
Public works	1,232,132	-	-	-	1,232,132
Health and welfare	802,295	-	-	-	802,295
Parks, recreation, and cultural	935,543	-	-	-	935,543
Community development	602,669	-	-	38,049	640,718
Nondepartmental	140,315	-	-	-	140,315
Education	7,555,104	-	-	-	7,555,104
Industrial Development Authority	147,530	-	-	-	147,530
Capital outlays	-	-	2,447,596	-	2,447,596
Debt service:					
Principal retirement	-	1,058,843	-	-	1,058,843
Interest and fiscal charges	-	462,632	-	-	462,632
<b>Total expenditures</b>	<b>17,812,909</b>	<b>1,521,475</b>	<b>2,447,596</b>	<b>252,113</b>	<b>22,034,093</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>2,824,470</b>	<b>(1,521,475)</b>	<b>(1,726,224)</b>	<b>(125,624)</b>	<b>(548,853)</b>
<b>Other financing sources (uses)</b>					
Transfers from:					
Sewer	150,000	-	-	-	150,000
General	-	1,601,475	1,165,204	-	2,766,679
Bond proceeds	-	-	14,500,000	-	14,500,000
Transfers to:					
Debt service	(1,601,475)	-	-	-	(1,601,475)
Capital projects	(1,165,204)	-	-	-	(1,165,204)
Parks and recreation	(184,350)	-	-	-	(184,350)
Solid waste	(183,333)	-	-	-	(183,333)
<b>Total other financing sources (uses)</b>	<b>(2,984,362)</b>	<b>1,601,475</b>	<b>15,665,204</b>	<b>-</b>	<b>14,282,317</b>
<b>Net change in fund balances</b>	<b>(159,892)</b>	<b>80,000</b>	<b>13,938,980</b>	<b>(125,624)</b>	<b>13,733,464</b>
<b>Fund balances - July 1, 2005</b>	<b>4,835,763</b>	<b>-</b>	<b>1,086,677</b>	<b>52,055</b>	<b>5,974,495</b>
<b>Fund balances - June 30, 2006</b>	<b>\$ 4,675,871</b>	<b>\$ 80,000</b>	<b>\$ 15,025,657</b>	<b>\$ (73,569)</b>	<b>\$ 19,707,959</b>

***City of Poquoson, Virginia******Statement of Revenues, Expenditures, and Changes in  
Fund Balances - Governmental Funds*****Year Ended June 30, 2006****Reconciliation of the Revenues, Expenditures, and Changes in  
Fund Balances - Governmental Funds to the Statement of Activities**

<b>Net change in fund balances - total governmental funds</b>	\$ 13,733,464
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Revenues in the Statement of Activities that do not provide financial resources are  
not reported as revenues in the funds. (40,070)

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities the cost of these assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Capital outlays	2,249,170
Depreciation expense	(731,548)

Proceeds from bond issuance provide current financial resources to governmental  
funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.  
Repayment of debt principal is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net assets.

Costs of debt issuance (net)	(14,482,307)
Repayment of debt principal	1,058,843

Some expenses reported in the Statement of Activities do not require the use of  
current financial resources and, therefore, are not reported as expenditures in  
governmental funds.

Interest expense	17,817
Compensated absences	(15,987)

Internal service fund is used by management to charge the cost of fleet management  
to individual departments. The net gain of the fleet management fund is reported  
with governmental activities.

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14,436

<b>Change in net assets of governmental activities</b>	<hr style="width: 10%; margin-left: 0;"/> \$ 1,803,818
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*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Statement of Net Assets - Proprietary Funds***June 30, 2006**

Assets	Business-type Activities Proprietary Funds					Governmental Activities - Internal Service Funds	
	Sewer Operation	Parks and Recreation	Solid Waste	Totals			
<b>Current assets</b>							
Cash and investments	\$ 1,272,770	\$ 118	\$ 364,456	\$ 1,637,344	\$ 96,161		
Accounts receivable	258,305	-	25,971	284,276	82		
Notes and interest receivable	4,162	-	-	4,162	-		
Inventory	-	-	3,230	3,230	23,404		
Prepaid expenses	-	13,173	-	13,173	-		
<b>Total current assets</b>	<b>1,535,237</b>	<b>13,291</b>	<b>393,657</b>	<b>1,942,185</b>	<b>119,647</b>		
<b>Noncurrent assets</b>							
Capital assets:							
Land	214,666	28,550	-	243,216	-		
Buildings	-	254,179	9,943	264,122	41,742		
Sewer system	21,645,904	-	-	21,645,904	-		
Equipment	476,424	143,406	614,196	1,234,026	31,887		
Less - accumulated depreciation	(5,534,366)	(254,636)	(326,688)	(6,115,690)	(51,739)		
Total capital assets (net of accumulated depreciation)	16,802,628	171,499	297,451	17,271,578	21,890		
Intangible assets	30,312	-	-	30,312	-		
<b>Total noncurrent assets</b>	<b>16,832,940</b>	<b>171,499</b>	<b>297,451</b>	<b>17,301,890</b>	<b>21,890</b>		
	<b>\$ 18,368,177</b>	<b>\$ 184,790</b>	<b>\$ 691,108</b>	<b>\$ 19,244,075</b>	<b>\$ 141,537</b>		
<b>Liabilities</b>							
<b>Current liabilities</b>							
Vouchers and accounts payable	\$ 21,963	\$ 36,236	\$ 26,170	\$ 84,369	\$ 8,073		
Accrued payroll	6,725	7,153	2,534	16,412	7,422		
Accrued interest	151,453	-	-	151,453	-		
Compensated absences	16,586	9,658	3,627	29,871	19,638		
Bonds, notes payable and capital lease obligations - current portion	768,762	-	-	768,762	-		
<b>Total current liabilities</b>	<b>965,489</b>	<b>53,047</b>	<b>32,331</b>	<b>1,050,867</b>	<b>35,133</b>		
<b>Noncurrent liabilities</b>							
Bonds, notes payable and capital lease obligations - less current portion	10,999,984	-	-	10,999,984	-		
<b>Total noncurrent liabilities</b>	<b>10,999,984</b>	<b>-</b>	<b>-</b>	<b>10,999,984</b>	<b>-</b>		
<b>Total liabilities</b>	<b>11,965,473</b>	<b>53,047</b>	<b>32,331</b>	<b>12,050,851</b>	<b>35,133</b>		
<b>Net Assets</b>							
Invested in capital assets - net of related debt	5,033,882	171,499	297,451	5,502,832	21,890		
Unrestricted	1,368,822	(39,756)	361,326	1,690,392	84,514		
<b>Total net assets</b>	<b>6,402,704</b>	<b>131,743</b>	<b>658,777</b>	<b>7,193,224</b>	<b>106,404</b>		
	<b>\$ 18,368,177</b>	<b>\$ 184,790</b>	<b>\$ 691,108</b>	<b>\$ 19,244,075</b>	<b>\$ 141,537</b>		

*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Statement of Revenue, Expenditures, and Changes in Fund Net Assets - Proprietary Funds***Year Ended June 30, 2006**

	Proprietary Fund Types				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
<b>Operating revenues</b>					
Charges for services	\$ 1,413,403	\$ 315,082	\$ 334,911	\$ 2,063,396	\$ 630,682
Festivals	-	143,695	-	143,695	-
Miscellaneous	-	405	-	405	-
<b>Total operating revenues</b>	<b>1,413,403</b>	<b>459,182</b>	<b>334,911</b>	<b>2,207,496</b>	<b>630,682</b>
<b>Operating expenses</b>					
Personnel services	215,015	257,606	110,058	582,679	226,847
Contractual services	49,921	217,119	19,916	286,956	35,091
Materials and supplies	31,404	49,592	70,673	151,669	332,538
Utilities	42,888	33,580	70	76,538	2,339
Depreciation and amortization	659,195	11,189	39,781	710,165	3,185
Other charges	55,896	18,615	47,712	122,223	17,276
Waste disposal	-	-	240,115	240,115	-
<b>Total operating expenses</b>	<b>1,054,319</b>	<b>587,701</b>	<b>528,325</b>	<b>2,170,345</b>	<b>617,276</b>
<b>Operating income (loss)</b>	<b>359,084</b>	<b>(128,519)</b>	<b>(193,414)</b>	<b>37,151</b>	<b>13,406</b>
<b>Nonoperating revenues (expenses)</b>					
Interest income	23,372	-	21	23,393	-
Interest and fiscal charges	(500,127)	-	-	(500,127)	-
Sewer availability fees	360,000	-	-	360,000	-
Gain (loss) on disposal of capital assets	-	-	36,000	36,000	1,030
<b>Net nonoperating revenues (expenses)</b>	<b>(116,755)</b>	<b>-</b>	<b>36,021</b>	<b>(80,734)</b>	<b>1,030</b>
<b>Income (loss) before transfers</b>	<b>242,329</b>	<b>(128,519)</b>	<b>(157,393)</b>	<b>(43,583)</b>	<b>14,436</b>
<b>Transfers</b>					
Transfer in	-	184,350	183,333	367,683	-
Transfers out	(150,000)	-	-	(150,000)	-
<b>Net transfers</b>	<b>(150,000)</b>	<b>184,350</b>	<b>183,333</b>	<b>217,683</b>	<b>-</b>
<b>Change in net assets</b>	<b>92,329</b>	<b>55,831</b>	<b>25,940</b>	<b>174,100</b>	<b>14,436</b>
<b>Net assets - July 1, 2005</b>	<b>6,310,375</b>	<b>75,912</b>	<b>632,837</b>	<b>7,019,124</b>	<b>91,968</b>
<b>Net assets - June 30, 2006</b>	<b>\$ 6,402,704</b>	<b>\$ 131,743</b>	<b>\$ 658,777</b>	<b>\$ 7,193,224</b>	<b>\$ 106,404</b>

*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Statement of Cash Flows - Proprietary Funds***Year Ended June 30, 2006**

	Proprietary Fund Types					Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total		
<b>Cash flows from operating activities</b>						
Received from customers and users	\$ 1,499,029	\$ 459,182	\$ 341,067	\$ 2,299,278	\$ 631,116	
Payments to suppliers for goods and services	(163,335)	(334,594)	(372,452)	(870,381)	(398,300)	
Payments to employees	(211,948)	(260,337)	(109,332)	(581,617)	(224,393)	
<b>Net cash provided by (used in) operating activities</b>	<b>1,123,746</b>	<b>(135,749)</b>	<b>(140,717)</b>	<b>847,280</b>	<b>8,423</b>	
<b>Cash flows from noncapital financing activities</b>						
Transfers to other funds	(150,000)	-	-	(150,000)	-	
Transfers from other funds	-	184,350	183,333	367,683	-	
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(150,000)</b>	<b>184,350</b>	<b>183,333</b>	<b>217,683</b>	<b>-</b>	
<b>Cash flows from capital and related financing activities</b>						
Principal paid on capital debt	(706,378)	-	-	(706,378)	-	
Proceeds from sales of capital assets	-	-	36,000	36,000	1,030	
Sewer availability fees	360,000	-	-	360,000	-	
Interest paid on capital debt	(510,837)	-	-	(510,837)	-	
Acquisition and construction of capital assets	-	(120,006)	(219,071)	(339,077)	(13,388)	
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(857,215)</b>	<b>(120,006)</b>	<b>(183,071)</b>	<b>(1,160,292)</b>	<b>(12,358)</b>	
<b>Cash flows from investing activities</b>						
Interest received	23,372	-	21	23,393	-	
<b>Net increase (decrease) in cash and investments</b>	<b>139,903</b>	<b>(71,405)</b>	<b>(140,434)</b>	<b>(71,936)</b>	<b>(3,935)</b>	
<b>Cash and investments - beginning of year</b>	<b>1,132,867</b>	<b>71,523</b>	<b>504,890</b>	<b>1,709,280</b>	<b>100,096</b>	
<b>Cash and investments - end of year</b>	<b>\$ 1,272,770</b>	<b>\$ 118</b>	<b>\$ 364,456</b>	<b>\$ 1,637,344</b>	<b>\$ 96,161</b>	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 359,084	\$ (128,519)	\$ (193,414)	\$ 37,151	\$ 13,406	
Adjustments:						
Depreciation and amortization	659,195	11,189	39,781	710,165	3,185	
Changes in assets and liabilities:						
Receivables - net	85,626	-	6,156	91,782	434	
Inventories	-	-	3,628	3,628	(9,976)	
Prepaid items	-	(3,282)	-	(3,282)	-	
Vouchers and accounts payable	16,774	(12,406)	2,406	6,774	(1,080)	
Accrued compensated absences	1,527	5,308	597	7,432	691	
Accrued payroll	1,540	(8,039)	129	(6,370)	1,763	
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,123,746</b>	<b>\$ (135,749)</b>	<b>\$ (140,717)</b>	<b>\$ 847,280</b>	<b>\$ 8,423</b>	

***City of Poquoson, Virginia***

***Statement of Fiduciary Net Assets***

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**June 30, 2006**

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<b>Assets</b>	<b>Library Agency Fund</b>
Cash and cash equivalents	<u>\$ 33,986</u>
 <b>Liabilities</b>	
Amounts held in trust for library building	<u>\$ 33,986</u>

*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Statement of Net Assets - Component Units***June 30, 2006**

<b>Assets</b>	Poquoson Public Schools	Industrial Development Authority	Total
Cash and cash equivalents	\$ 2,006,689	\$ 16,103	\$ 2,022,792
Due from other governments	474,195	-	474,195
Inventory	8,378	-	8,378
Capital assets - net	4,016,383	2,534,198	6,550,581
	<b>\$ 6,505,645</b>	<b>\$ 2,550,301</b>	<b>\$ 9,055,946</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 2,217,643	\$ 51	\$ 2,217,694
Line of credit	-	1,859,091	1,859,091
Compensated absences - current	18,940	-	18,940
Due to primary government	23	-	23
Note payable	-	43,333	43,333
Compensated absences - noncurrent	138,893	-	138,893
<b>Total liabilities</b>	<b>2,375,499</b>	<b>1,902,475</b>	<b>4,277,974</b>
<b>Net Assets</b>			
Invested in capital assets	4,016,383	631,774	4,648,157
Unrestricted	113,763	16,052	129,815
<b>Total net assets</b>	<b>4,130,146</b>	<b>647,826</b>	<b>4,777,972</b>
	<b>\$ 6,505,645</b>	<b>\$ 2,550,301</b>	<b>\$ 9,055,946</b>

*The accompanying notes are an integral part of the basic financial statements.*

*City of Poquoson, Virginia**Schedule of Activities - Component Units***Year Ended June 30, 2006**

	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson Public Schools	Industrial Development Authority	Totals
<b>Poquoson Public Schools</b>							
Education	\$ 20,614,907	\$ 563,308	\$ 11,939,407	\$ -	\$ (8,112,192)	\$ -	\$ (8,112,192)
<b>Industrial Development Authority</b>							
Economic Development	174,264	-	-	-	-	(174,264)	(174,264)
<b>Total component units</b>	<b>\$ 20,789,171</b>	<b>\$ 563,308</b>	<b>\$ 11,939,407</b>	<b>\$ -</b>	<b>\$ (8,112,192)</b>	<b>(174,264)</b>	<b>(8,286,456)</b>

<b>General revenues</b>			
City of Poquoson	7,555,081	147,530	7,702,611
Miscellaneous revenues	306,780	26,807	333,587
<b>Total general revenues</b>	<b>7,861,861</b>	<b>174,337</b>	<b>8,036,198</b>
<b>Change in net assets</b>			
<b>Net assets - beginning of year</b>	<b>(250,331)</b>	<b>73</b>	<b>(250,258)</b>
<b>Net assets - end of year</b>	<b>4,380,477</b>	<b>647,753</b>	<b>5,028,230</b>

*The accompanying notes are an integral part of the basic financial statements.*

# *City of Poquoson, Virginia*

## *Notes to Basic Financial Statements*

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**June 30, 2006**

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### **1. Summary of Significant Accounting Policies**

The accounting policies of the *City of Poquoson, Virginia* and its component units conform to accounting principles generally accepted in the United States of America as applicable to government units. The following is a summary of the more significant accounting policies:

#### **Reporting Entity**

The *City of Poquoson, Virginia* (City) is a municipality governed by an elected seven-member council. The reporting entity of the City has been determined in accordance with accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB) and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. As required by those principles, these financial statements present the *City of Poquoson, Virginia* (Primary Government) and its discretely presented component units, the City of Poquoson School Board (School Board) and the Industrial Development Authority (IDA).

The City's reporting entity consists of the Primary Government as well as its component units, which are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government).

The School Board is responsible for elementary and secondary education in the City. The members of the School Board are appointed by the City Council. The School Board is fiscally dependent upon the City because the City's governing body, City Council, levies the necessary taxes, approves the issuance of bonds, and provides the financial resources to be used for acquisition or construction of School Board facilities and to provide funding for the operations.

Therefore, the School Board is included in the component unit column of the City's financial statements because of the significance of its financial relationship with the City. Furthermore, the School Board meets the criteria for discrete presentation and is, therefore, presented in a separate component units column in the basic financial statements to emphasize that it is legally separate from the City. There are no separate financial statements issued for the School Board.

The Industrial Development Authority is a legally separate public corporation established under the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia, together with ordinances adopted by the City Council. The IDA was established to promote industry, to develop trade within the City, and to attract institutions of higher education to locate or remain in the City. The IDA is also included in the component units column of the City's financial statements because the City is able to impose its will on the IDA by appointment of the governing body. In addition, the City Council funds a portion of the IDA's operating budget and guarantees their line of credit. Therefore, the IDA is financially dependent on the City. There are no separate financial statements issued for the IDA.

The entities described in Note 16, Related-Party Transactions, are excluded from the City's Comprehensive Annual Financial Report, as the City does not have financial accountability over their activities.

### **Financial Reporting Model**

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement) which established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Because of the significant changes in financial reporting under the Statement, implementation was phased in (based on the size of the government) beginning with fiscal year ended 2002 (for larger governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional delay for implementation to the fiscal year ending in 2007. The City implemented the basic model in fiscal year 2003 and anticipates completing the implementation of the infrastructure-related portion of the statement by fiscal year 2007.

### **Management's Discussion and Analysis**

GASB Statement No. 34 and GASB Statement No. 37 require financial statements to be accompanied by a narrative introduction of the basic financial statements and an analytical overview of the government's financial activities in the form of Management's Discussion and Analysis (MD&A).

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental* activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for services. Likewise, the *primary* government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. The agency fund financial statements have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major City or School Board capital facilities, other than those financed by proprietary funds.

The *Grant Fund* accounts for resources and expenditures related to state and federal grants for community development and public safety.

The City reports the following major proprietary funds:

The *Sewer Operations Fund* provides maintenance to the sewer lines and pump stations and derives the majority of its revenue through user charges and fees.

The *Parks and Recreation Fund* accounts for the operation of the City's pool and parks and derives its primary revenue from user fees for recreational programs.

The *Solid Waste Fund* accounts for the collection, disposal, and recycling of household and municipal solid waste, bulky items, and landscaping debris and derives its primary revenue from user fees.

Additionally, the City reports the following proprietary fund type:

The *Internal Service Fund* consists of the fleet management fund which accounts for the operation of the City's central automotive maintenance service facility. The fleet management fund provides services to all City and School Board departments and/or other governmental units on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fiduciary Fund - Agency Fund Types**

The Fiduciary Fund is used to account for assets held by the City as an agent for a private organization. Fiduciary funds are not included in the government-wide financial statements since they are used to report assets held in trust for others and therefore cannot be used to support the City's own programs. The Fiduciary Fund type consists of the Agency Fund that accounts for monies donated by the Friends of the Library for furnishings and supplies for the library.

### **Component Unit - School Board**

There are no separate financial statements issued for the School Board and, consequently, combining statements that contain fund type data are included in the City's financial statements. Following are the School Board's funds.

#### ***School Board General Fund***

The General Fund is the general operating fund of the School Board. It is used to account for the general operation and administration costs of the school system. It receives funds transferred to it by the City's General Fund. It also derives revenue from state and federal funds allocated specifically for the operation of the school system.

#### ***School Board Special Revenue Fund***

The Special Revenue Fund is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Accordingly, the Special Revenue Fund is used to account for operations of the various school cafeterias. Cafeteria revenue is comprised of federal grants and charges to students for meals and, accordingly, is restricted as to the purpose for which they may be used.

#### ***School Board Agency Funds***

The Agency Funds account for assets held in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The Poquoson Instructional Support Fund accounts for monies donated for support of several after school programs such as Odyssey of the Mind. The School Activities Fund is used to account for the funds of various student activities in each of the schools.

### ***Component Unit - Industrial Development Authority***

The Industrial Development Authority, a legally separate organization, was established under the Industrial Development and Revenue Bond Act of the Code of Virginia and ordinances adopted by the City Council. City Council also appoints the IDA board and approves the budget. The IDA is responsible for promoting industry and developing trade by inducing private enterprises to remain or relocate in the City. Its income is derived from appropriations from the City, fees and land sales, and rental of property. The IDA does not issue separate financial statements and, consequently, has been included in the financial statements as a component unit.

## **Budgeting and Budgetary Accounting**

Budgets are employed by the primary government as a financial control device for the General Fund, Debt Service Fund, Capital Projects Fund, Grant Fund and Proprietary Funds. An annual appropriated budget is legally adopted for the General Fund through ordinances passed by City Council.

Annual budgets prepared by management are utilized for the Debt Service Fund, Grant Fund and Proprietary Funds. Program and project budgets are utilized to control expenditures in the Capital Projects Fund. Therefore, the Debt Service Fund, Grant Fund, Capital Projects and Proprietary Funds are not included in the budget and actual comparisons.

The School Board approves the annual operating budget for its General Fund. An annual operating budget is not adopted for the School Board Special Revenue Fund; therefore, it is not included in the budget and actual comparison of the component unit.

For the School Board General Fund, the Superintendent has authorization to transfer funds within categories, but must obtain authorization from the School Board for transfers between categories. City Council appropriates local funds. The School Board must authorize any increase in grant funds.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that encumbrances are included as budgetary expenditures. Budgeted amounts reflected in the primary government are as originally adopted and amended by City Council. Supplemental budget appropriations were approved during the fiscal year ended June 30, 2006, for an increase in appropriations in the amount of \$1,745,033 and \$339,276 for the primary government General Fund and School Board General Fund, respectively.

For the General Fund, the City Manager is authorized to transfer budgeted amounts between line items of departments. Revisions that alter the total appropriations for a department must be approved by City Council. Therefore, the level of control at which expenditures may not exceed appropriations is the total expenditure level of each department. Unencumbered appropriations lapse at year-end.

## **Cash and Cash Equivalents**

For purposes of the combined statement of cash flows for all proprietary fund types the City considers all highly liquid investments, including those classified as restricted cash which, when purchased, had a maturity of three months or less, to be cash equivalents.

## **Investments**

Investments consist of the State Treasurer's Local Government Investment Pool (LGIP), federal government obligations, money market funds, and the State Non-Arbitrage Program (SNAP). Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. The City considers investments with a maturity date of three months or less when purchased to be cash and cash equivalents.

## **Capital Assets**

Capital outlays are recorded as expenditures of the governmental funds, and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

Capital outlays of the proprietary funds and the IDA are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund's basis and the government-wide basis. For assets constructed, interest expense is capitalized on proprietary fund type assets financed with tax-exempt debt. The amount of interest expense capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest income earned on invested proceeds over the same period.

The City's capitalization policy threshold is \$5,000. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized at the net present value of all lease payments.

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Infrastructure	20 - 50
Machinery and equipment	3 - 50

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the current year's operations.

### **Allowance for Uncollectible Accounts**

The City (primary government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2006, the allowance approximated \$305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

### **Inventory**

Inventory in the Solid Waste Fund and the Special Revenue Fund of the School Board consist principally of items held for resale and are valued at cost (first-in, first-out method).

Inventory in the Fleet Management Fund (Internal Service Fund) consists of supplies held for future use and is valued at average cost (weighted average method).

Reported inventory for the Special Revenue Fund of the School Board is offset by a fund balance reserve which indicates it does not constitute "available expendable resources."

Inventory is recognized as expenditures when consumed.

### **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund and Capital Projects Fund of the City.

While encumbrances do not constitute expenditures in accordance with accounting principles generally accepted in the United States of America, encumbrances outstanding at year-end do not lapse and are reported as reservations of fund balances.

Encumbrance accounting is also employed as an extension of formal budgetary control in the School Board General Fund of the component unit. Again, encumbrances outstanding at year-end do not lapse and are reported as reservations of fund balance.

### **Compensated Absences**

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources is accounted for as a liability in the government-wide statements and proprietary fund statements.

### **Sewer Availability Fees**

Amounts charged customers to connect to the City's sewer system are recognized as nonoperating revenue.

### **Deferred Revenue**

Deferred revenue in the governmental fund types consists of revenue that is measurable but not available for use during the current period. Property taxes receivable at June 30, not collected within 45 days after that date are reported as deferred revenue in the accompanying combined financial statements. Grants, where the earnings process is not complete, are also reported as deferred revenue.

### **Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

### **Credit Risk**

The assessed value of real estate for the City's ten largest taxpayers comprises 4.10% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

## **2. Deposits and Investments**

### **Deposits**

At year-end, the carrying value of the primary government's deposits with banks and savings institutions was \$4,467,693 and the bank balance was \$4,864,642 including cash with fiscal agents. Of the bank balance, 100% was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

Under this Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral equal to 50% of such deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified bank's public deposits are considered 100% "insured" (per GASB Statement No. 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2006, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

The carrying amount of deposits for the School Board was \$1,589,520 and the bank balance was \$2,018,282. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2006, no balances of the component unit were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

## **Investments**

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with portfolio securities valued by the amortized cost method. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. As of June 30, 2006, the City had \$13,752,527 invested in the State Non-Arbitrage Program (SNAP). SNAP funds are rated AAA by Standard & Poor's.

## **Investment Policy**

In accordance with the Code of Virginia and other applicable laws and regulations, the City's investment policy (Policy) permits investments in U.S. government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (Virginia LGIP, a 2a-7 like pool).

The policy establishes limitations on the holdings on non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

Commonwealth of Virginia LGIP	100% maximum
Repurchase Agreements	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	20% maximum
Negotiable Certificates of Deposit/Bank Notes	20% maximum
Municipal Obligations	20% maximum
Corporate notes	10% maximum
Bank deposits	15% maximum

For the purposes of this Policy, assets of the City shall be segregated into three categories based on expected liquidity needs and purposes: short-term operating funds, the core portfolio and bond proceeds.

### *Short-Term Operating Funds*

Assets categorized as short-term funds will be invested in permitted investments maturing in twelve (12) months or less. The average weighted maturity of the short-term assets will not exceed 180 days. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as the LGIP, money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### *Core Portfolio*

The general fund core portfolio will be invested in permitted investments with a stated maturity of no more than three years from the date of purchase.

### *Bond Proceeds*

Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

### **Credit Risk**

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk. The City's investments held by Scott & Stringfellow are rated AAA by Standard & Poor's.

### **Concentration of Credit Risk**

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the City's portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Each Money Market Fund	50% maximum
Each Repurchase Agreement Counterparty	25% maximum

### **Interest Rate Risk**

As means of limiting exposure to fair value losses arising from rising interest rates, the City's policy limits the investment of operating funds to investments with a stated maturity of no more than three years from the date of purchase.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

## **Custodial Risk**

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2006, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

As of June 30, 2006, the carrying values and weighted average maturity of the City's investments were as follows:

	Investment Maturities (in years)			
	Fair value	Less than		1-3 years
		1 year	1 year	
Money market funds - Virginia LGIP	\$ 600,593	\$ 600,593	\$ -	\$ -
Money market funds - Scott & Stringfellow	96,795	96,795	-	-
U.S. government agencies	1,199,545	-	-	1,199,545
Corporate notes	575,935	-	-	575,935
Virginia SNAP Accounts	13,752,527	-	-	13,752,527
Total investments	\$ 16,225,395	\$ 697,388	\$ 15,528,007	
Reconciliation to total cash and investments				
Add:				
Cash on hand and in banks		4,460,203		
Total cash and investments	\$ 20,685,598			

### **3. Property Taxes Receivable**

Real estate taxes are levied based on the assessed value of the property on each July 1 and attach as an enforceable lien on property as of July 1. Personal property taxes are levied based on the assessed value of the property on each January 1. Real estate and personal property taxes are payable in two installments on December 5th and June 5th. The City bills and collects its own property taxes.

### **4. Notes Receivable**

Notes receivable of the Sewer Operations Fund represent agreements between the City and residents for payment of sewer availability fees. The original face value of each note of \$3,000 is to be paid in 36 monthly principal installments of \$92.50 plus interest, at an effective annual rate of 7%.

## 5. Due From Other Governmental Units

Due from other governmental units at June 30, 2006, consists of the following:

### **Primary Government**

	General Fund
<u>Commonwealth of Virginia</u>	
Comprehensive Services Act	\$ 86,112
Sales tax	38,202
Division of Motor Vehicles reimbursement	8,267
Compensation Board	14,942
Fire Program Fund	26,204
PPTRA	<u>884,118</u>
Total due from the Commonwealth of Virginia	<u>1,057,845</u>
<u>Federal Government</u>	
COPS Fast Grant	17,388
Homeland Security Domestic Preparedness	<u>2,749</u>
Total due from the federal government	<u>20,137</u>
Total due from other governmental units	<u>\$ 1,077,982</u>

### **Component Unit – School Board**

<u>Commonwealth of Virginia</u>	
State sales tax	\$ 166,472
State technology reimbursement	<u>146,219</u>
Total due from the Commonwealth of Virginia	<u>312,691</u>
<u>Federal Government</u>	
Department of Education Program	
Title I & II	7,869
Title V	14,700
Title VI	7,320
Title VI-B	126,764
Various grants	<u>4,851</u>
Total due from the federal government	<u>161,504</u>
Total due from the other governmental units	<u>\$ 474,195</u>

## 6. Interfund Receivables and Payables

Details of the receivables and payables between the primary government and the component units at June 30, 2006, are as follows:

Primary Government Receivable Fund	Component Unit Payable Fund	Amount
City General Fund	School General Fund	<u>\$</u>
		<u>23</u>

## 7. Capital Assets

A summary of changes in capital assets for the primary government follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<b>Capital assets not being depreciated</b>				
Land	\$ 2,588,978	\$ 394,880	\$ -	\$ 2,983,858
Construction-in-progress	718,843	886,384	896,371	708,856
<b>Total capital assets not being depreciated</b>	<b>3,307,821</b>	<b>1,281,264</b>	<b>896,371</b>	<b>3,692,714</b>
<b>Other capital assets</b>				
Buildings	6,302,648	791,755	-	7,094,403
Infrastructure	1,259,512	-	-	1,259,512
Machinery and equipment	4,244,082	1,042,009	72,376	5,213,715
<b>Total other capital assets</b>	<b>11,806,242</b>	<b>1,833,764</b>	<b>72,376</b>	<b>13,567,630</b>
<b>Less – accumulated depreciation</b>				
Buildings	1,877,312	160,359	-	2,037,671
Infrastructure	46,125	52,767	-	98,892
Machinery and equipment	2,263,961	307,901	71,521	2,500,341
<b>Total accumulated depreciation</b>	<b>4,187,398</b>	<b>521,027</b>	<b>71,521</b>	<b>4,636,904</b>
<b>Other capital assets - net</b>	<b>7,618,844</b>	<b>1,312,737</b>	<b>855</b>	<b>8,930,726</b>
	<b>10,926,665</b>	<b>2,594,001</b>	<b>897,226</b>	<b>12,623,440</b>
<b>Allocation of School Board Assets</b>				
Buildings	10,685,346	-	-	10,685,346
<b>Less – accumulated depreciation</b>				
Buildings	2,118,100	213,706	-	2,331,806
<b>Total allocated to City</b>	<b>8,567,246</b>			<b>8,353,540</b>
<b>Total</b>	<b>\$ 19,493,911</b>			<b>\$ 20,976,980</b>

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 123,982
Public Safety	241,779
Public Works	58,556
Health and Welfare	20,168
Parks, Recreation, and Cultural	72,354
Nondepartmental	4,188
Education	<u>213,706</u>
	\$ 734,733

A summary of changes in capital assets for the Component Unit - School Board follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<b>Capital assets not being depreciated</b>				
Land	\$ 243,223	\$ -	\$ -	\$ 243,223
<b>Other capital assets</b>				
Buildings	17,916,382	152,213	-	18,068,595
Machinery and equipment	3,397,903	30,833	299,112	3,129,624
<b>Total other capital assets</b>	<b>21,314,285</b>	<b>183,046</b>	<b>299,112</b>	<b>21,198,219</b>
<b>Less – accumulated depreciation</b>				
Buildings	6,273,656	378,618	-	6,652,274
Machinery and equipment	2,525,721	182,817	289,293	2,419,245
<b>Total accumulated depreciation</b>	<b>8,799,377</b>	<b>561,435</b>	<b>289,293</b>	<b>9,071,519</b>
<b>Other capital assets - net</b>	<b>12,514,908</b>	<b>(378,389)</b>	<b>9,819</b>	<b>12,126,700</b>
	12,758,131	(378,389)	9,819	12,369,923
<b>Allocation to City</b>				
Buildings	(10,685,346)	-	-	(10,685,346)
<b>Less – accumulated depreciation</b>	<b>2,118,100</b>	<b>213,706</b>	<b>-</b>	<b>2,331,806</b>
<b>Total allocated to City</b>	<b>(8,567,246)</b>			<b>(8,353,540)</b>
<b>Total</b>	<b>\$ 4,190,885</b>			<b>\$ 4,016,383</b>

A summary of changes in capital assets for the enterprise funds is as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<b>Capital assets not being depreciated</b>				
Land	\$ 243,216	\$ -	\$ -	\$ 243,216
<b>Other capital assets</b>				
Buildings	264,122	-	-	264,122
Machinery and equipment	947,976	339,077	53,027	1,234,026
Sewer system	21,638,904	-	-	21,638,904
Sewer easement	7,000	-	-	7,000
<b>Total other capital assets</b>	<b>22,858,002</b>	<b>339,077</b>	<b>53,027</b>	<b>23,144,052</b>
<b>Less – accumulated depreciation</b>				
Buildings	243,579	3,112	-	246,691
Machinery and equipment	614,252	87,403	53,027	648,628
Sewer system	4,603,578	616,793	-	5,220,371
<b>Total accumulated depreciation</b>	<b>5,461,409</b>	<b>707,308</b>	<b>53,027</b>	<b>6,115,690</b>
<b>Other capital assets - net</b>	<b>17,396,593</b>	<b>(368,231)</b>	<b>-</b>	<b>17,028,362</b>
<b>Total</b>	<b>\$ 17,639,809</b>	<b>\$ (368,231)</b>	<b>\$ -</b>	<b>\$ 17,271,578</b>

A summary of the changes in capital assets for the Industrial Development Authority is as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<b>Capital assets not being depreciated</b>				
Land	\$ 2,174,900	\$ -	\$ -	\$ 2,174,900
<b>Other capital assets</b>				
Buildings	118,858	-	-	118,858
Infrastructure	315,273	-	-	315,273
<b>Total other capital assets</b>	<b>434,131</b>	<b>-</b>	<b>-</b>	<b>434,131</b>
<b>Less – accumulated depreciation</b>				
Buildings	25,070	6,771	-	31,840
Infrastructure	28,662	14,331	-	42,993
<b>Total accumulated depreciation</b>	<b>53,732</b>	<b>21,102</b>	<b>-</b>	<b>74,833</b>
<b>Other capital assets - net</b>	<b>380,399</b>	<b>(21,102)</b>	<b>-</b>	<b>359,298</b>
<b>Total</b>	<b>\$ 2,555,299</b>	<b>\$ (21,102)</b>	<b>\$ -</b>	<b>\$ 2,534,198</b>

## 8. Long-Term Obligations

### Governmental Activities

Following is a summary of the changes in long-term liabilities for governmental activities and its component unit - School Board, respectively, for the year ended June 30, 2006:

	<b>Balance July 1, 2005</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2006</b>	<b>Amounts due within one year</b>
<b>General obligations</b>					
Debts payable:					
General obligation bonds	\$ 7,060,912	\$ 14,500,000	\$ 593,961	\$ 20,966,951	\$ 626,745
General obligation leases	653,906	-	62,882	591,024	86,299
State Literary Fund loans	4,371,820	-	402,000	3,969,820	402,000
Deferred charge – refunding	(171,796)	-	(16,362)	(155,434)	-
	11,914,842	14,500,000	1,042,481	25,372,361	1,115,044
Accrued benefits:					
Accrued compensated absences	445,328	600,445	583,767	462,006	23,084
<b>Component Unit – School Board</b>					
Accrued benefits:					
Accrued compensated absences	\$ 124,960	\$ 32,873	\$ -	\$ 157,833	\$ 18,940

Outstanding general obligation bonds at June 30, 2006 of the City's governmental activities are comprised of the following:

<b>School Serial Bonds of 1989</b> - \$1,500,000 bonds issued and due in annual installments varying from \$55,000 to \$90,000 through December 2009, with interest payable semi-annually at rates varying from 6.85% to 7.20%.	\$ 275,000
<b>High School Serial Bonds of 1998</b> - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%.	405,000
<b>General Obligation Court Facility Bond Series 1998A</b> - \$1,546,415 bonds issued and due in annual installments varying from \$43,594 to \$122,839, through March 2016, with interest paid semi-annually at 4.5%.	1,015,734
<b>General Obligation Fire Station Bond Series 2000</b> - \$925,000 bonds issued and due in semi-annual principal and interest installments of \$45,471 through September 2015. The bonds bear interest at 5.43%.	667,838
<b>General Obligation Refunding Note Series 2001</b> - \$647,428 note payable due in annual installments ranging from \$68,109 to \$68,690 including principal and interest at 6.82%, through January 2016.	482,384
<b>General Obligation Public Improvement Equipment Note Series 2002B</b> - \$597,000 bonds issued and due in annual installments of \$72,304, including principal and interest at 4.34%, through June 2011.	320,995
<b>Subtotal (carried forward)</b>	\$ 3,166,951

<b>Subtotal (brought forward)</b>	\$	3,166,951
<i>General Obligation Refunding Note Series 2002</i> - \$3,405,000 bonds issued and due in annual installments varying from \$35,000 to \$385,000 through January 2016, with interest paid semi-annually at 2.5% to 3.72%.		3,300,000
<i>General Obligation Bond, Series 2005</i> - \$5,000,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$92,000 to \$400,000 through August 2026, with interest paid semi-annually at 3.86%. Interest only payments are due semi-annually until August 2007.		5,000,000
<i>General Obligation Bond Literary Loan Anticipation Note, Series 2006A</i> - \$2,384,000 bonds issued and due in one payment of \$2,384,000 principal and interest of 3.4% in August 2010. Semi-annual interest payment of 3.4% are due until August 2010.		2,384,000
<i>General Obligation Public Bond, Series 2006B</i> - \$7,116,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$140,000 to \$605,900 through August 2027, with interest paid semi-annually at 3.99%. Interest only payments are due semi-annually until August 2007.		7,116,000
<b>Total general obligation bonds outstanding</b>	\$	<u>20,966,951</u>

Estimated annual debt service requirements to maturity for general obligation bonds for future years ending June 30, follows:

<u>Year</u>	Principal	Interest
2007	\$ 626,745	\$ 896,283
2008	870,554	804,415
2009	906,472	768,441
2010	934,430	731,246
2011	3,314,634	691,398
2012-2016	5,268,416	2,432,642
2017-2019	9,045,700	2,137,393
	<u>\$ 20,966,951</u>	<u>\$ 8,461,818</u>

In October 2004, the City of Poquoson entered into a capital lease to purchase two fire trucks. This lease required one payment of \$50,562 in June 2005 and ten annual payments of \$86,299, including principal and interest at 3.58%, through June 2014. The balance as of June 30, 2006 was \$591,024.

Future minimum lease payments under capital lease with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2006, are as follows:

2007	\$ 86,299
2008	86,299
2009	86,299
2010	86,299
2011	86,299
2012-2014	159,529
	<u>\$ 591,024</u>

#### Line of Credit

In December 2003, the City of Poquoson obtained a \$2,000,000 line of credit evidenced by a general obligation revenue anticipation note. This line of credit expired on November 15, 2005 and was not renewed in fiscal year 2006.

## **Advance Refunding**

In November 2002, the City of Poquoson issued \$3,405,000 of general obligation refunding bonds to provide resources to purchase U.S. government bonds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$3,175,000 of general obligation bonds. The initial payment from the escrowed funds is due in January 2007. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's governmental activities column on the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$230,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 13 year period by \$333,000 and resulted in a net present value savings of \$281,070. The advance refunded debt was legally defeased on January 1, 2004.

Outstanding literary loan funds at June 30, 2006 of the Primary Governmental activities are comprised of the following issues:

<b>Primary School Literary Fund Loan</b> - \$2,500,000 loan issued September 15, 1989, due in annual installments of \$125,000 through August 2009, with interest at 3%.	\$ 500,000
<b>Primary School Literary Fund Loan</b> - \$408,820 loan issued August 15, 1998, due in annual installments of \$27,000 through August 2012, and a final payment of \$30,820 due in August 2013, with interest at 3%.	219,820
<b>High School Literary Fund Loan</b> - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2018, with interest at 3%.	<u>3,250,000</u>
<b>Total state literary fund loans outstanding</b>	<u>\$ 3,969,820</u>

Estimated state literary fund loans debt service requirements to maturity for future years ending June 30, follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 402,000	\$ 119,095
2008	402,000	107,035
2009	402,000	94,975
2010	402,000	82,915
2011	277,000	70,855
2012-2019	<u>2,084,820</u>	<u>275,205</u>
	<u>\$ 3,969,820</u>	<u>\$ 750,080</u>

## **Debt Limit**

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to ten percent of total assessed value of real property. As of June 30, 2006, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was \$66,153,430 less than the allowable limit.

## **Overlapping Debt**

There are no overlapping or underlying tax jurisdictions.

## 9. Long-Term Liabilities - Business-Type Activities

Following is a summary of debt transactions of the enterprise funds for the fiscal year ended June 30, 2006:

	Balance July 1, 2005				Balance June 30, 2006	Amounts due within one year
		Increases	Decreases			
<b>Enterprise Funds</b>						
General obligation bonds	\$ 12,791,016	\$ -	\$ 741,927	\$ 12,049,089	\$ 768,762	
Accounting loss on refunding	(321,469)	35,549	-	(285,920)	-	
Bond premium	5,577	-	-	5,577	-	
	12,475,124	35,549	741,927	11,768,746	768,762	
Accrued compensated absences	22,426	38,026	30,581	29,871	1,467	
	\$ 12,497,550	\$ 73,575	\$ 772,508	\$ 11,798,617	\$ 770,229	

General long-term obligations and notes payable at June 30, 2006, are comprised of the following:

***General Obligation Sewer System Bonds, Series 1994A (September 1994)***

- \$2,800,000 bonds issued and due in annual installments varying from \$15,000 to \$245,000 through September 2017, with interest payable semi-annually at rates varying from 6.11 % to 6.50%. \$ 125,000

***General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998)***

- \$2,294,591 bonds issued and due in annual installments varying from \$21,809 to \$235,256, through September 2017, with interest payable semi-annually at 4.5%. 2,143,368

***General Obligation Sewer Bonds, Series 2000B (May 2000)*** - \$2,664,671 bonds issued with interest only due on the outstanding balance at March 1, 2001, at 3.5%. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$94,847 through September 2020, at a rate of 3.5%. 2,142,729

***General Obligation Sewer Bonds, Series 2000A (May 2000)*** - \$7,335,329 bonds authorized and issued, with interest only due on the outstanding balance at March 1, 2001. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$261,093 through September 2020, at a rate of 3.5%. 5,898,524

***General Obligation Sewer Bonds, Series 2002*** - \$1,095,000 bonds issued and due in annual installments varying from \$55,057 to \$82,040 through April 2022 with interest payable semi-annually at rates varying from 3.10% to 5.10%. 945,000

***General Obligation Public Improvement Equipment Note Series 2002A*** - \$141,000 bonds issued and due in annual installments of \$30,590, including principal and interest at 3.57% through August 2006. 29,468

***General Obligation Sewer System Refunding Bonds Series 2003***

(December 2003)- \$990,000 bonds issued and due in annual installments varying from \$110,000 to \$140,000, through January 2012, with interest payable semi-annually at 2.92%. 765,000

Accounting loss on refundings  
Bond premium

12,049,089  
(285,920)  
5,577

**Total general obligation bonds outstanding**

\$ 11,768,746

Estimated debt service on the foregoing general obligation bonds recorded in the enterprise funds is payable during future fiscal years ending June 30, as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 768,762	\$ 410,714
2008	771,690	382,081
2009	795,971	353,848
2010	825,565	324,062
2011	855,482	293,638
2012-2016	4,190,580	1,060,734
2017-2021	3,761,039	353,535
2022-2024	80,000	4,377
	<u>\$ 12,049,089</u>	<u>\$ 3,182,989</u>

The City anticipates that all amounts required for the payment of interest and principal on these bonds will be provided by the Enterprise Fund's revenue; however, the bonds are further collateralized by the full faith and credit of the City.

### **Advanced and Current Refundings**

In prior years, the City advanced refunded certain Sewer General Obligation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2006, \$2,015,000 of the bonds outstanding is considered to be an in-substance defeasance. The debt was legally defeased on September 1, 2004.

In December 2003, the City of Poquoson issued \$990,000 of general obligation refunding bonds to currently refund \$935,000 of general obligation refunding bonds. The refunded bonds are considered to be legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$55,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 8 year period by \$60,089 and resulted in a net present value savings of \$54,656.

The unamortized amount deferred on the sewer refundings of \$285,920 is reported in the accompanying financial statements as a reduction of bonds payable, and is being charged to operations as a component of interest through the year 2016 using the straight-line method.

## **10. Current Liabilities - Component Unit - Industrial Development Authority (IDA)**

### **Line of Credit**

The IDA uses a \$3,000,000 line of credit with a bank to finance a variety of land purchases. The line of credit expires on March 31, 2007 and bears interest at 6.13% and is unsecured. Short-term activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	\$ 1,771,175	\$ 87,916	\$ -	\$ 1,859,091

## **Note Payable**

The IDA also has \$130,000 interest bearing note payable to Michael E. Thompson and Connie Freeman Thompson, due in annual installments of \$43,333 through June 2007, with interest at 5.00%.

Estimated principal payments on notes payable for future years ending June 30, follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 43,333	\$ 2,167

## **11. Conduit Debt Obligation**

On July 1, 2001 and September 12, 2005, the IDA issued \$10,000,000 and \$5,000,000 YMCA Revenue Bonds, respectively, to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On November 1, 2003, the IDA issued \$5,000,000 Nansemond-Suffolk Academy (NSA) Revenue bonds to finance an addition. On July 13, 2004, the IDA issued \$7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility of the YMCA, the NSA, and the HNNCSB, respectively. The bonds provide that neither the IDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2006, \$26,024,041 remained outstanding.

## **12. Unearned Revenue**

Unearned revenue for the primary government at June 30, 2006, consists of real and personal property taxes not collected within 45 days after June 30, 2006, and grant money received but not yet expended.

## **13. Contingency**

The City receives grant funds, principally from the United States Government, for various programs. Although the City has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of the City, no material refunds will be required as a result of future disallowances of current or prior program expenditures.

## **14. Certain Interfund Transactions and Fund Results**

### **Interfund Transfers**

Interfund transfers for the year ended June 30, 2006 were made up of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 150,000	\$ 3,134,362
Debt Service Fund	1,601,475	-
Capital Projects Fund	1,165,204	-
Parks and Recreation Fund	184,350	-
Sewer Operations Fund	-	150,000
Solid Waste Fund	183,333	-
	<b>\$ 3,284,362</b>	<b>\$ 3,284,362</b>

Purpose:

Transfers from General Fund:

- \$ 1,601,475 Debt Service Fund: current year debt payments.  
\$ 1,165,204 Capital Projects Fund: funding for pay-as-you-go capital projects.  
\$ 184,350 Parks and Recreation Fund: fund deficit in special events and pool dome.  
\$ 183,333 Solid Waste Fund: fund bulk item pickup.

Transfers from Sewer Operations Fund:

- \$ 150,000 General Fund: allocate administration costs paid out of General Fund for sewer services.

## 15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the primary government and component unit during the fiscal year ended June 30, 2006:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool – All City employees – employee dishonesty blanket bond	\$ 500,000
Forest T. Jones & Company, Inc.: Janet A. Brown, Executive Director of Business and Finance, School Board, Clerk of the School Board	\$ 10,000
Dr. Marilyn F. Barr, Deputy Clerk of the School Board	\$ 10,000
All School Board employees – blanket bond	\$ 1,000,000

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverage on certain employees pursuant to Section 2.1-526.9 of the Code of Virginia. The coverage with respect to the Treasurer does not extend to the loss of any City funds.

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool – Surety, Faithful Performance of Duty Schedule, Position Bond: Treasurer and employees	\$ 500,000
Commonwealth of Virginia Faithful Performance Of Duty Bond: Treasurer	\$ 500,000
Commissioner of the Revenue	\$ 500,000

## **16. Related-Party Transactions**

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula Alliance for Economic Development (PAED), the Colonial Services Board (CSB) and the Greater Peninsula Workforce Development Consortium (GPWDC). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2006, the City provided support to HRPDC of \$26,815, VPPSA of \$203,495, PAED of \$6,040, CSB of \$109,440 and GPWDC of \$5,330.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During fiscal year 2006, the City incurred expenses for the jail and center of \$88,756 and \$69,594, respectively. Notes issued by the regional jail are limited obligations payable from revenues received from the member jurisdictions. The City, along with three other member jurisdictions, have agreed to provide funding makeup support to cover any deficiencies in the regional jail's debt service fund based on each member's utilization rate.

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth's Attorney and the sheriff of York County. The City also shares social services with York County. During the year ended June 30, 2006, the City paid \$446,967 to York County for these shared services.

The School Board's financial statements do not include the New Horizons Education Center. During the year ended June 30, 2006, the School Board provided support of \$451,033 to the New Horizons Education Center.

## **17. Defined Benefit Retirement Plan**

### **A. Plan Description**

The City contributes to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. In addition, professional and nonprofessional employees of the Poquoson School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the agent multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Employees are eligible for an unreduced benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriff) or at age 50 with at least 30 years service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriff) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC), for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary.

Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they are retired prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

## **B. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by both the City and the School Board. In addition the City and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's (non-professional employees) contribution rate for the year ended June 30, 2006, was 6.00% and 7.75%, respectively, of annual covered payroll. The School Board's required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2006, 2005 and 2004 and were \$1,320,551, \$1,189,333 and \$854,446, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2006 and each of the two preceding years.

## **C. Annual Pension Cost**

For fiscal years 2006, 2005, and 2004, the City and School Board's annual pension costs of \$538,299, \$494,856, and \$256,075, respectively, and \$93,198, \$90,935 and \$77,983, respectively, were equal to the City and School Board's required and actual contributions. The required contributions were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The contribution rate set by the June 30, 2003 valuation was in effect from July 1, 2004 through June 30, 2006. The actuarial assumptions included (1) 7.50% investment rate of return, (2) projected salary increases ranging from 3.50% to 5.73% per year, and (3) 2.50% per year cost-of-living adjustments. Both (1) and (2) included an inflation component of 2.50%. The actuarial value of the City and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a 5-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage on an open basis within a period of 27 years or less.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuation on June 30, 2004. Actuarial assumptions used include an investment rate of return of 7.50%.

## **18. Notes to Schedule of Employer Contributions and Funding Progress**

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information for both the City and the School Board as of June 30, 2005, actuarial valuation follows:

Valuation date	June 30, 2005
Actuarial cost method	Entry age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	21 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	
1.) Non-LEO	3.50% to 5.73%
2.) LEO employees	3.50% to 4.71%
Cost-of-living adjustments	2.50%

<sup>1</sup> Includes inflation at 2.50%

## **19. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss from certain acts of employees and certain elected officials is insured through commercial insurance as discussed in Note 15. Substantially all other risks are insured through participation in various public entity risk pools operating as common risk management and insurance programs for many local political subdivisions in the Commonwealth of Virginia. The City pays annual premiums to the pools for its general insurance coverage. The agreements of political subdivisions participating in the pools provide that the pools will be self-sustaining through member premiums but will reinsure through commercial companies for excess liability claims.

There have been no significant reductions in insurance coverage's from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three years.

## **20. Accounting Changes**

The City adopted GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* during fiscal year ended June 30, 2006. There is no fiscal impact on the financial statements.

\* \* \* \* \*

*City of Poquoson, Virginia**General Fund  
Budgetary Comparison Schedule***Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues and other financing sources</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 10,700,000	\$ 10,769,000	\$ 10,837,467	\$ 68,467
Public service corporation property taxes	118,000	118,000	137,444	19,444
Personal property	1,672,000	1,852,000	1,888,246	36,246
Penalties and interest	110,000	110,000	149,801	39,801
<b>Total general property taxes</b>	<b>12,600,000</b>	<b>12,849,000</b>	<b>13,012,958</b>	<b>163,958</b>
Other local taxes:				
Sales and use taxes	449,000	449,000	458,238	9,238
Meals taxes	420,000	420,000	453,091	33,091
Cigarette taxes	102,000	102,000	73,548	(28,452)
Consumers' utility taxes	427,000	427,000	440,102	13,102
Consumption tax	36,000	36,000	38,275	2,275
E-911 telephone taxes	165,000	165,000	151,531	(13,469)
Business license taxes	325,000	385,000	388,663	3,663
Franchise license taxes	109,000	109,000	127,428	18,428
Motor vehicle license taxes	285,000	285,000	306,684	21,684
Bank stock taxes	33,000	33,000	39,250	6,250
Recordation and wills taxes	153,000	153,000	268,698	115,698
Deeds of conveyance	25,000	25,000	47,084	22,084
<b>Total other local taxes</b>	<b>2,529,000</b>	<b>2,589,000</b>	<b>2,792,592</b>	<b>203,592</b>
Permits, privilege fees and regulatory licenses:				
Animal license	1,700	1,700	1,486	(214)
Permits and other licenses	114,300	114,300	171,915	57,615
<b>Total permits, privilege fees and regulatory licenses</b>	<b>116,000</b>	<b>116,000</b>	<b>173,401</b>	<b>57,401</b>
Fines and forfeitures	24,800	24,800	37,283	12,483
Revenue from use of money and property:				
Revenue from use of money	40,000	75,890	96,700	20,810
Revenue from use of property	83,800	83,800	87,977	4,177
<b>Total revenue from use of money and property</b>	<b>123,800</b>	<b>159,690</b>	<b>184,677</b>	<b>24,987</b>
Charges for services:				
Charges for sales of maps	300	300	57	(243)
Charges for business promotional maps	-	4,970	5,270	300
Charges for copying	4,200	4,200	4,054	(146)
Charges for library and fees	17,500	17,500	20,313	2,813
<b>Total charges for services</b>	<b>22,000</b>	<b>26,970</b>	<b>29,694</b>	<b>2,724</b>
Miscellaneous revenue:				
Miscellaneous	3,200	16,092	15,656	(436)
Insurance recoveries	-	-	191	191
Donations-volunteer fire and rescue	-	-	125	125
Donations	-	20,190	20,215	25
<b>Total miscellaneous revenue</b>	<b>3,200</b>	<b>36,282</b>	<b>36,187</b>	<b>(95)</b>

***City of Poquoson, Virginia******General Fund  
Budgetary Comparison Schedule*****Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues and other financing sources (Continued)</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	6,780	6,780	6,780	-
DMV reimbursement	80,000	80,000	80,947	947
Wine taxes	7,100	7,100	7,107	7
Mobile home titling taxes	3,000	3,000	3,482	482
Rolling stock tax	80	80	81	1
Personal property tax relief	1,800,000	2,019,000	2,018,257	(743)
<b>Total noncategorical aid</b>	<b>1,896,960</b>	<b>2,115,960</b>	<b>2,116,654</b>	<b>694</b>
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	82,550	82,550	82,950	400
Treasurer	95,780	95,780	94,585	(1,195)
Registrar/electoral board	46,030	46,030	46,068	38
<b>Total categorical aid</b>	<b>224,360</b>	<b>224,360</b>	<b>223,603</b>	<b>(757)</b>
Other categorical aid:				
State 599 police funds	291,800	291,800	291,856	56
Juvenile crime	14,380	14,380	-	(14,380)
Fire program fund	16,000	16,000	26,204	10,204
Department of Emergency Services	2,000	2,000	2,000	-
Street and highway maintenance	630,000	630,000	630,000	-
Litter control	4,370	6,568	6,568	-
Library	111,780	113,797	113,797	-
Emergency medical services	5,710	5,710	9,501	3,791
Wireless E911 PSAP	35,130	35,130	47,115	11,985
Comprehensive services	314,900	314,900	256,983	(57,917)
DMV mini grant	-	1,500	-	(1,500)
Vopex grant	-	10,500	10,500	-
<b>Total other categorical aid</b>	<b>1,426,070</b>	<b>1,442,285</b>	<b>1,394,524</b>	<b>(47,761)</b>
<b>Total categorical aid</b>	<b>1,650,430</b>	<b>1,666,645</b>	<b>1,618,127</b>	<b>(48,518)</b>
<b>Total revenue from the Commonwealth</b>	<b>3,547,390</b>	<b>3,782,605</b>	<b>3,734,781</b>	<b>(47,824)</b>
Revenue from the federal government:				
Miscellaneous	5,100	251,867	293,661	41,794
<b>Total revenue from the federal government</b>	<b>5,100</b>	<b>251,867</b>	<b>293,661</b>	<b>41,794</b>
<b>Other financing sources</b>				
Transfer from component unit-School Board	347,510	347,510	342,144	(5,366)
Transfer from sewer fund	150,000	150,000	150,000	-
<b>Total other financing uses</b>	<b>497,510</b>	<b>497,510</b>	<b>492,144</b>	<b>(5,366)</b>
<b>Total revenue and other financing sources</b>	<b>\$ 19,468,800</b>	<b>\$ 20,333,724</b>	<b>\$ 20,787,379</b>	<b>\$ 453,655</b>

*City of Poquoson, Virginia**General Fund  
Budgetary Comparison Schedule***Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
				Positive (Negative)
<b>Expenditures and other financing uses</b>				
General government administration:				
Legislative - City Council	\$ 65,490	\$ 92,640	\$ 92,631	\$ 9
General and financial administration:				
City Manager	333,990	393,078	393,353	(275)
Legal services	90,250	100,750	100,739	11
Independent auditor	26,000	26,000	22,005	3,995
Commissioner of the Revenue	247,750	247,750	245,653	2,097
Assessor/equalization board	136,600	156,200	156,169	31
Treasurer	246,630	264,820	264,795	25
Finance	287,790	287,790	276,464	11,326
Risk management	90,046	67,886	56,499	11,387
<b>Total general and financial administration</b>	<b>1,459,056</b>	<b>1,544,274</b>	<b>1,515,677</b>	<b>28,597</b>
Board of elections - electoral board and registrar	113,220	113,220	112,833	387
<b>Total general government administration</b>	<b>1,637,766</b>	<b>1,750,134</b>	<b>1,721,141</b>	<b>28,993</b>
Public safety:				
General district court	135,436	135,436	114,749	20,687
Clerk of the circuit court	(25,546)	(25,546)	(41,630)	16,084
Sheriff	106,492	106,492	124,323	(17,831)
Building maintenance	38,478	38,478	41,247	(2,769)
<b>Total judicial administration</b>	<b>254,860</b>	<b>254,860</b>	<b>238,689</b>	<b>16,171</b>
Law enforcement and traffic control - police department	1,868,570	2,147,522	1,952,553	194,969
Fire and rescue services - fire department	2,093,200	2,074,915	2,064,878	10,037
Correction and detention - regional operated institutions	151,480	169,250	169,250	-
Inspections - various	230,040	203,140	203,119	21
Other protection - animal control	69,540	69,540	66,323	3,217
<b>Total public safety</b>	<b>4,412,830</b>	<b>4,664,367</b>	<b>4,456,123</b>	<b>208,244</b>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	104,860	108,260	108,249	11
Highways, streets, bridges and sidewalks	928,200	870,200	920,333	(50,133)
Street lights	65,000	65,820	65,817	3
<b>Total maintenance of highways, streets, bridges and sidewalks</b>	<b>1,098,060</b>	<b>1,044,280</b>	<b>1,094,399</b>	<b>(50,119)</b>
Maintenance of general buildings and grounds	122,150	181,980	181,976	4
<b>Total public works</b>	<b>1,220,210</b>	<b>1,226,260</b>	<b>1,276,375</b>	<b>(50,115)</b>

*City of Poquoson, Virginia**General Fund  
Budgetary Comparison Schedule***Year Ended June 30, 2006**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget</b>
				<b>Positive (Negative)</b>
<b>Expenditures and other financing uses (Continued)</b>				
Health and welfare:				
Health:				
Local health department	44,060	45,201	45,101	100
Mosquito control	182,400	182,400	166,697	15,703
<b>Total health</b>	<b>226,460</b>	<b>227,601</b>	<b>211,798</b>	<b>15,803</b>
Mental health and mental retardation - mental health	136,210	136,210	136,204	6
Welfare:				
Social services	100,045	101,387	101,560	(173)
Comprehensive services	443,505	443,505	351,564	91,941
<b>Total welfare</b>	<b>543,550</b>	<b>544,892</b>	<b>453,124</b>	<b>91,768</b>
<b>Total health and welfare</b>	<b>906,220</b>	<b>908,703</b>	<b>801,126</b>	<b>107,577</b>
Education - School Board	7,456,200	7,555,104	7,555,104	-
Parks, recreation and cultural - supervision of parks and recreation	272,530	282,000	281,996	4
Library - administration	618,100	650,879	650,871	8
<b>Total parks, recreation and cultural</b>	<b>890,630</b>	<b>932,879</b>	<b>932,867</b>	<b>12</b>
Community development:				
Planning	328,990	330,190	309,123	21,067
Economic development	5,330	10,330	11,580	(1,250)
Community development	142,260	150,458	138,389	12,069
Community development - IDA component unit	87,330	147,530	147,530	-
Community relations office	131,690	138,430	138,424	6
<b>Total community development</b>	<b>695,600</b>	<b>776,938</b>	<b>745,046</b>	<b>31,892</b>
Nondepartmental - miscellaneous	49,000	50,450	50,446	4
Department of motor vehicles	85,880	89,880	89,868	12
<b>Total nondepartmental</b>	<b>134,880</b>	<b>140,330</b>	<b>140,314</b>	<b>16</b>
<b>Other Financing Uses</b>				
Transfers to Debt Service Fund	1,604,694	1,604,694	1,601,475	3,219
Transfers to Capital Projects Fund	80,000	1,165,204	1,165,204	-
Transfers to Parks Recreation Fund	124,900	184,350	184,350	-
Transfers to Solid Waste Fund	200,000	200,000	183,333	16,667
<b>Total other financing uses</b>	<b>2,009,594</b>	<b>3,154,248</b>	<b>3,134,362</b>	<b>19,886</b>
<b>Total expenditures and other financing uses</b>	<b>\$ 19,618,790</b>	<b>\$ 21,363,823</b>	<b>\$ 21,001,147</b>	<b>\$ 362,675</b>
Excess of revenue and other financing sources over expenditures and other financing uses - budgetary basis	<b>\$ (149,990)</b>	<b>\$ (1,030,099)</b>	<b>\$ (213,769)</b>	
<b>Net appropriation from fund balance</b>	<b>149,990</b>	<b>1,030,099</b>		
Budget - excess of revenue, other financing sources and appropriation from fund balances over expenditures and other financing uses	<b>\$ -</b>	<b>\$ -</b>		
Less - Encumbrances outstanding June 30, 2005, actually expended as of June 30, 2006			<b>(71,459)</b>	
Add - Encumbrances outstanding June 30, 2006			<b>125,336</b>	
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			<b>(159,892)</b>	
Fund balances - July 1, 2005			<b>4,835,763</b>	
Fund balances - June 30, 2006			<b>\$ 4,675,871</b>	

**Retirement Plan****Schedules of Funding Progress and Employer Contributions**  
**Virginia Retirement System****Year Ended June 30, 2006**

		Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Liability	Funded Ratio	Covered Payroll	Over (Under) Funded Actuarial Liability as a Percent of Covered Payroll	
<b>Schedules of Funding Progress</b>									
<b>City Employees</b>		6/30/05	\$ 13,070,399	\$ 15,732,821	\$ (2,662,422)	83.08%	\$ 4,719,239	(56.42)%	
		6/30/04	\$ 12,302,897	\$ 12,826,677	\$ (523,780)	95.92%	\$ 4,351,660	(12.04)%	
		6/30/03	\$ 11,865,662	\$ 11,671,875	\$ 193,787	101.66%	\$ 4,053,858	4.78%	
		6/30/02	\$ 11,533,688	\$ 10,399,405	\$ 1,134,283	110.91%	\$ 3,736,191	30.36%	
		6/30/01	\$ 11,032,189	\$ 9,356,833	\$ 1,675,356	117.91%	\$ 3,258,356	51.40%	
<b>School Board</b>									
<b>Non-professional Employees</b>		6/30/05	\$ 1,012,382	\$ 1,411,419	\$ (399,037)	71.73%	\$ 656,255	(60.81)%	
		6/30/04	\$ 913,845	\$ 1,186,159	\$ (272,314)	77.04%	\$ 625,284	(43.55)%	
		6/30/03	\$ 827,244	\$ 949,503	\$ (122,259)	87.12%	\$ 467,736	(26.14)%	
		6/30/02	\$ 769,537	\$ 908,263	\$ (138,726)	84.73%	\$ 515,674	(26.90)%	
		6/30/01	\$ 699,099	\$ 799,581	\$ (100,482)	87.43%	\$ 474,453	(21.18)%	
<b>Schedules of Employer Contributions</b>									
<b>City Employees</b>		Valuation Date		Annual Required Contribution (ARC)		Percentage of ARC Contributed		Net Pension Obligation	
		6/30/06		\$ 293,618		100.00%		\$ -	
		6/30/05		\$ 269,921		100.00%		\$ -	
		6/30/04		\$ 42,679		100.00%		\$ -	
		6/30/03		\$ 40,011		100.00%		\$ -	
		6/30/02		\$ 17,689		100.00%		\$ -	
<b>School Board</b>									
<b>Non-professional Employees</b>		6/30/06		\$ 52,528		100.00%		\$ -	
		6/30/05		\$ 50,132		100.00%		\$ -	
		6/30/04		\$ 46,677		100.00%		\$ -	
		6/30/03		\$ 38,481		100.00%		\$ -	
		6/30/02		\$ 32,678		100.00%		\$ -	

## *City of Poquoson, Virginia*

### *Notes to Required Supplementary Information*

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**June 30, 2006**

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#### **1. Budgets and Budgetary Accounting**

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted within 40 days of submission to City Council, but no later than May 31. If City Council does not adopt the proposed budget before May 31, the budget as submitted is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council.

Budgets for proprietary fund types are prepared on the accrual basis of accounting. The General, Capital Projects and Debt Service Funds' budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for the recognition of encumbrances as expenditures in the General and Capital Projects.

Therefore, the "actual" data included in statements comparing expenditures with budgets differs from the expenditures reported in accordance with generally accepted accounting principles by the amount of the reported encumbrances.

Beginning fund balances for budgetary basis presentation purposes are adjusted for the carryforward of prior year encumbrances. According to City Code, unexpended and unencumbered appropriations lapse at June 30 of each year. Appropriations that are encumbered at June 30 are carried forward into the following year's appropriations to allow for liquidation of the encumbrances.

Budgeting comparisons for the General Fund are shown as required supplementary information.

\* \* \* \* \*

*City of Poquoson, Virginia****Component Unit - School Board  
Combining Balance Sheet*****June 30, 2006**

<b>Assets</b>	<b>Governmental Activities</b>		<b>Total School Board</b>
	<b>General</b>	<b>Special Revenue</b>	
Cash and cash equivalents	\$ 1,991,599	\$ 15,090	\$ 2,006,689
Due from other governmental units	474,195	-	474,195
Inventory	-	8,378	8,378
	<b>\$ 2,465,794</b>	<b>\$ 23,468</b>	<b>\$ 2,489,262</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 2,217,643	\$ -	\$ 2,217,643
Due to primary government	23	-	23
<b>Total liabilities</b>	<b>2,217,666</b>	<b>-</b>	<b>2,217,666</b>
<b>Fund Balances</b>			
Reserved:			
Encumbrances	248,128	-	248,128
Inventory	-	8,378	8,378
Unreserved	-	15,090	15,090
<b>Total fund balances</b>	<b>248,128</b>	<b>23,468</b>	<b>271,596</b>
	<b>\$ 2,465,794</b>	<b>\$ 23,468</b>	<b>\$ 2,489,262</b>

**Reconciliation of Component Unit Combining Balance Sheet to  
Statement of Net Assets - Component Unit - School Board**

Total fund balances - component unit - School Board	\$ 271,596
Amount reported for component unit activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds, net of accumulated depreciation	4,016,383
Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the funds.	(157,833)
Total net assets - component unit - School Board	<u>\$ 4,130,146</u>

*City of Poquoson, Virginia**Component Unit - School Board  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances***Year Ended June 30, 2006**

	General Fund	Special Revenue	Total School Board
<b>Revenues</b>			
Charges for services	\$ -	\$ 563,308	\$ 563,308
Intergovernmental:			
Commonwealth of Virginia	10,982,640	9,549	10,992,189
Federal government	906,043	41,175	947,218
Miscellaneous	316,599	-	316,599
<b>Total revenues</b>	<b>12,205,282</b>	<b>614,032</b>	<b>12,819,314</b>
<b>Expenditures</b>			
Current:			
Education	19,584,403	735,546	20,319,949
Capital outlays	97,402	-	97,402
<b>Total expenditures</b>	<b>19,681,805</b>	<b>735,546</b>	<b>20,417,351</b>
<b>Deficiency of revenues over expenditures</b>	<b>(7,476,523)</b>	<b>(121,514)</b>	<b>(7,598,037)</b>
<b>Other financing sources (uses)</b>			
Operating transfer from primary government	7,555,104	-	7,555,104
Operating transfer to primary government	(23)		(23)
Operating transfers in - school general fund	-	112,747	112,747
Operating transfers out - school special revenue fund	(112,747)	-	(112,747)
<b>Total other financing sources - net</b>	<b>7,442,334</b>	<b>112,747</b>	<b>7,555,081</b>
<b>Net change in fund balance</b>	<b>(34,189)</b>	<b>(8,767)</b>	<b>(42,956)</b>
<b>Fund balance - July 1, 2005</b>	<b>282,317</b>	<b>32,235</b>	<b>314,552</b>
<b>Fund balance - June 30, 2006</b>	<b>\$ 248,128</b>	<b>\$ 23,468</b>	<b>\$ 271,596</b>

**Reconciliation of the Revenues, Expenditures, and Changes in  
Fund Balances - School Board Funds to the Statement of Activities - Component Units**

<b>Net change in fund balances - total school board funds</b>	\$ (42,956)
Amount reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation. Also, in the Statement of Activities, the loss of disposal of assets is reported.	
Capital outlays	183,045
Depreciation expense	(347,729)
Loss on disposal of capital assets	(9,819)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(32,872)
<b>Change in net assets of governmental activities</b>	<b>\$ (250,331)</b>

*City of Poquoson, Virginia****School Board  
Budgetary Comparison Schedule - General Fund*****Year Ended June 30, 2006**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Commonwealth of Virginia	\$ 11,330,368	\$ 11,332,868	\$ 10,982,640	\$ (350,228)
Federal government	926,743	1,069,681	906,043	(163,638)
Miscellaneous	313,884	408,818	316,599	(92,219)
<b>Total revenues</b>	<b>12,570,995</b>	<b>12,811,367</b>	<b>12,205,282</b>	<b>(606,085)</b>
<b>Expenditures</b>				
Current:				
General and financial administration	920,351	931,744	890,960	40,784
Instruction	13,159,284	13,350,370	12,754,965	595,405
Attendance and health services	236,003	236,003	229,045	6,958
Pupil transportation	678,415	717,909	720,798	(2,889)
Operation and maintenance of school plants	1,484,632	1,586,730	1,628,549	(41,819)
Fixed charges	3,485,660	3,481,173	3,421,864	59,309
Capital outlay	3,800	3,492	1,435	2,057
<b>Total expenditures</b>	<b>19,968,145</b>	<b>20,307,421</b>	<b>19,647,616</b>	<b>659,805</b>
<b>Other financing sources (uses)</b>				
Operating transfer from primary government	7,456,200	7,555,104	7,555,104	-
Operating transfer to primary government	-	-	(23)	23
Operating transfer out - special revenue fund	(59,050)	(59,050)	(112,747)	53,697
<b>Total other financing sources-net</b>	<b>7,397,150</b>	<b>7,496,054</b>	<b>7,442,334</b>	<b>53,720</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>				
	\$ -	\$ -	-	\$ -
Less - encumbrances outstanding June 30, 2005, actually expended as of June 30, 2006			(282,317)	
Add - encumbrances outstanding June 30, 2006			<u>248,128</u>	
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis</b>				
			(34,189)	
<b>Fund balance - July 1, 2005</b>			<u>282,317</u>	
<b>Fund balance - June 30, 2006</b>			<u>\$ 248,128</u>	

*City of Poquoson, Virginia**School Board**Schedule of Changes in Capital Assets by Function and Activity***Year Ended June 30, 2006**

	<b>Balance</b>		<b>Balance</b>	
	<b>July 1, 2005</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2006</b>
Education	\$ 21,557,508	\$ 183,046	\$ 299,112	\$ 21,441,442
Less - accumulated depreciation	(8,799,377)	(561,435)	289,293	(9,071,519)
	12,758,131	(378,389)	9,819	12,369,923
Allocation of assets to City - net	(8,567,246)	213,706	-	(8,353,540)
	\$ 4,190,885	\$ (164,683)	\$ 9,819	\$ 4,016,383

*City of Poquoson, Virginia**Discretely Presented Component Unit - School Board  
Combining Schedule of Changes in Assets and Liabilities - Agency Funds***June 30, 2006**

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2005</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2006</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 359,285	\$ 984,125	\$ 1,011,296	\$ 332,114
<b>Liabilities</b>				
Due to students	\$ 359,285	\$ 984,125	\$ 1,011,296	\$ 332,114

*City of Poquoson, Virginia**Statement of Changes in Assets and Liabilities - Agency Funds*June 30, 2006

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2005</b>	Additions	Deductions	<b>June 30, 2006</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 54,793	\$ 1,828	\$ 22,635	\$ 33,986
<b>Liabilities</b>				
Amounts held for others	\$ 54,793	\$ 1,828	\$ 22,635	\$ 33,986

*City of Poquoson, Virginia**Statement of Cash Flows - Component Unit -  
Industrial Development Authority***Year Ended June 30, 2006**

<b>Cash flows from operating activities</b>	
Received from customers and users	\$ 32,975
Payments to suppliers for goods and services	(86,150)
<b>Net cash used in operating activities</b>	<b><u>(53,175)</u></b>
<b>Cash flows from noncapital financing activities</b>	
Transfers from other funds	147,530
<b>Net cash provided by noncapital financing activities</b>	<b><u>147,530</u></b>
<b>Cash flows from capital and related financing activities</b>	
Principal paid on capital debt	(43,334)
Proceeds from line of credit	87,916
Interest paid on capital debt	(122,834)
<b>Net cash used in capital and related financing activities</b>	<b><u>(78,252)</u></b>
Net increase (decrease) in cash and investments	16,103
Cash and investments - beginning of year	-
Cash and investments - end of year	<b><u>\$ 16,103</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
Operating loss	\$ (24,623)
Adjustments:	
Depreciation and amortization	21,102
Changes in assets and liabilities:	
Receivables - net	6,168
Vouchers and accounts payable	(18)
Due to other governments	<u>(55,804)</u>
<b>Net cash used in operating activities</b>	<b><u>\$ (53,175)</u></b>

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Table 1

*City of Poquoson, Virginia**Government-Wide Revenues***Year Ended June 30,**

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Reimbursements from Other Agencies	Charges for Services	Unrestricted Investment Earnings	Miscellaneous	
2006	\$ 2,409,304	\$ 2,122,034	\$ 342,400	\$ 15,845,620	\$ 2,035,707	\$ 360,000	\$ 439,031	\$ 255,105	\$ 23,809,201
2005	\$ 2,180,673	\$ 2,705,293	\$ 1,187,904	\$ 15,125,168	\$ 1,830,047	\$ 587,000	\$ 143,689	\$ 255,064	\$ 24,014,838
2004	\$ 2,211,880	\$ 1,718,011	\$ 193,425	\$ 13,660,262	\$ 2,012,657	\$ -	\$ 39,559	\$ 423,310	\$ 20,259,104
2003	\$ 2,033,912	\$ 1,326,011	\$ 694,324	\$ 13,239,298	\$ 1,669,092	\$ -	\$ 137,316	\$ 386,569	\$ 19,486,522

**Note:** FY 2004 also had \$2,693,058 extraordinary revenues related to Hurricane Isabel.

Table 2

*City of Poquoson, Virginia**Government-Wide Expenditures by Function*

Year Ended June 30,															Total Expenditures
Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Interest on Long-term Debt	Non- Departmental	Sewer	Parks and Recreation	Solid Waste		
2006	\$ 2,379,161	\$ 238,689	\$ 4,657,932	\$ 1,327,111	\$ 821,356	\$ 7,426,666	\$ 1,030,174	\$ 817,214	\$ 462,508	\$ -	\$ 1,554,446	\$ 587,701	\$ 528,325	\$ 21,831,283	
2005	\$ 1,716,083	\$ 180,184	\$ 4,750,969	\$ 1,694,612	\$ 840,310	\$ 7,087,769	\$ 1,343,537	\$ 563,788	\$ 500,461	\$ 130,551	\$ 1,537,870	\$ 545,799	\$ 475,269	\$ 21,367,202	
2004	\$ 1,449,410	\$ 277,307	\$ 3,823,700	\$ 1,659,214	\$ 650,092	\$ 6,965,522	\$ 839,537	\$ 636,477	\$ 525,850	\$ 120,404	\$ 1,609,179	\$ 524,504	\$ 446,172	\$ 19,527,368	
2003	\$ 1,401,639	\$ 247,161	\$ 3,721,021	\$ 1,472,320	\$ 605,334	\$ 6,459,434	\$ 775,359	\$ 514,618	\$ 561,580	\$ 78,826	\$ 1,657,238	\$ 543,327	\$ 430,223	\$ 18,468,080	

Note: FY 2004 also had \$2,797,515 extraordinary expenditures related to Hurricane Isabel.

Table 3

*City of Poquoson, Virginia**General Governmental Revenues By Source***Last Ten Fiscal Years**

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Revenues From Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	From Commonwealth	From Federal Government	Total
2006	\$ 13,012,958	\$ 2,792,592	\$ 173,401	\$ 37,283	\$ 503,615	\$ 593,002	\$ 353,980	\$ -	\$ 15,254,700	\$ 1,240,879	\$33,962,410
2005	\$ 12,488,453	\$ 2,635,722	\$ 172,455	\$ 30,583	\$ 202,548	\$ 485,327	\$ 350,167	\$ -	\$ 15,982,140	\$ 1,115,540	\$33,462,935
2004	\$ 11,226,560	\$ 2,524,964	\$ 173,525	\$ 24,605	\$ 58,948	\$ 317,338	\$ 1,192,908	\$ -	\$ -	\$ -	\$15,518,848
2003	\$ 10,859,951	\$ 2,442,485	\$ 116,843	\$ 27,970	\$ 132,753	\$ 331,500	\$ 220,601	\$ -	\$ -	\$ -	\$14,132,103
2002	\$ 9,716,038	\$ 2,402,784	\$ 144,907	\$ 22,596	\$ 121,081	\$ 337,227	\$ 188,861	\$ -	\$ -	\$ -	\$12,933,494
2001	\$ 9,921,498	\$ 1,984,354	\$ 108,412	\$ 25,448	\$ 226,684	\$ 355,996	\$ 162,936	\$ -	\$ -	\$ -	\$12,785,328
2000	\$ 9,247,685	\$ 1,890,427	\$ 100,194	\$ 35,957	\$ 208,774	\$ 359,386	\$ 151,675	\$ -	\$ -	\$ -	\$11,994,098
1999	\$ 9,364,276	\$ 1,825,575	\$ 107,561	\$ 36,062	\$ 307,428	\$ 239,137	\$ 168,112	\$ -	\$ -	\$ -	\$12,048,151
1998	\$ 8,995,589	\$ 1,671,810	\$ 94,133	\$ 23,081	\$ 408,521	\$ 285,782	\$ 137,800	\$ -	\$ -	\$ -	\$11,616,716
1997	\$ 8,850,776	\$ 1,632,564	\$ 86,424	\$ 37,324	\$ 311,902	\$ 285,666	\$ 176,700	\$ -	\$ -	\$ -	\$11,381,356

**Note:** Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements).

Table 4

*City of Poquoson, Virginia**General Governmental Expenditures by Function***Last Ten Fiscal Years**

Fiscal Year	General Governmental Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development and Non-Departmental	Capital Projects	Debt Service Principal	Total
2006	\$ 1,754,223	\$ 4,857,162	\$ 1,232,132	\$ 802,295	\$ 20,417,351	\$ 935,543	\$ 781,033	\$ 2,447,596	\$ 1,058,843	\$ 34,286,178
2005	\$ 1,543,930	\$ 4,440,330	\$ 1,284,108	\$ 819,499	\$ 19,907,983	\$ 830,797	\$ 634,664	\$ 2,338,525	\$ 1,066,793	\$ 32,866,629
2004	\$ 1,333,308	\$ 4,007,945	\$ 1,128,861	\$ 657,485	\$ 17,924,386	\$ 763,681	\$ 632,851	\$ 987,539	\$ 1,508,041	\$ 28,944,097
2003	\$ 1,273,661	\$ 3,774,685	\$ 1,013,082	\$ 601,282	\$ 16,305,793	\$ 763,866	\$ 530,628	\$ 1,021,949	\$ 1,531,171	\$ 26,816,117
2002	\$ 1,257,684	\$ 3,284,029	\$ 1,025,194	\$ 447,294	\$ 15,559,173	\$ 720,466	\$ 492,048	\$ 1,282,450	\$ 1,597,319	\$ 25,665,657
2001	\$ 1,172,028	\$ 3,092,622	\$ 889,179	\$ 464,380	\$ 15,100,371	\$ 730,150	\$ 293,769	\$ 1,567,339	\$ 2,160,329	\$ 25,470,167
2000	\$ 1,149,086	\$ 2,943,894	\$ 983,878	\$ 448,376	\$ 14,149,699	\$ 663,220	\$ 307,481	\$ 1,471,535	\$ 1,479,556	\$ 23,596,725
1999	\$ 1,059,566	\$ 2,708,722	\$ 868,873	\$ 440,107	\$ 13,244,386	\$ 637,317	\$ 290,022	\$ 3,898,984	\$ 1,428,956	\$ 24,576,933
1998	\$ 993,642	\$ 2,426,352	\$ 824,541	\$ 508,481	\$ 12,347,618	\$ 578,141	\$ 221,550	\$ 4,832,525	\$ 1,031,993	\$ 23,764,843
1997	\$ 906,797	\$ 2,269,253	\$ 850,212	\$ 416,236	\$ 11,985,078	\$ 527,120	\$ 194,291	\$ 5,299,946	\$ 1,039,044	\$ 23,487,977

**Note:** Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements). Note that the debt service does not include refunded principal payments.

Table 5

*City of Poquoson, Virginia**Property Tax Levies and Collections*

Last Ten Fiscal Years									
Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy	
2006	\$ 10,945,183	\$ 10,643,194	97.24%	\$ 174,509	\$ 10,817,703	98.84%	\$ 359,517	3.28%	
2005	\$ 10,695,154	\$ 10,528,025	98.44%	\$ 169,791	\$ 10,697,816	100.02%	\$ 339,875	3.18%	
2004	\$ 9,363,522	\$ 9,193,103	98.18%	\$ 219,044	\$ 9,412,147	100.52%	\$ 237,868	2.54%	
2003	\$ 9,199,326	\$ 9,064,109	98.53%	\$ 493,614	\$ 9,557,723	103.90%	\$ 286,493	3.11%	
2002	\$ 9,513,341	\$ 9,279,055	97.54%	\$ 240,308	\$ 9,519,363	100.06%	\$ 358,397	3.77%	
2001	\$ 9,554,596	\$ 9,232,273	96.63%	\$ 223,297	\$ 9,455,570	98.96%	\$ 282,512	2.96%	
2000	\$ 9,287,339	\$ 8,985,622	96.75%	\$ 140,085	\$ 9,125,707	98.26%	\$ 161,632	1.74%	
1999	\$ 9,447,775	\$ 8,979,383	95.04%	\$ 285,420	\$ 9,264,803	98.06%	\$ 182,972	1.94%	
1998	\$ 8,913,085	\$ 8,511,426	95.49%	\$ 329,808	\$ 8,841,234	99.19%	\$ 71,851	0.81%	
1997	\$ 8,932,859	\$ 8,536,177	95.56%	\$ 333,993	\$ 8,870,170	99.30%	\$ 62,689	0.70%	

(1) Exclusive of penalties and interest

(2) Does not include land redemption

Table 6

*City of Poquoson, Virginia**Assessed Value of Taxable Property***Last Ten Fiscal Years**

Fiscal Year	Real Property			Public Utility	
	Personal Property		Real Property	Total	
2006	\$ 1,025,497,078	\$ 137,528,873	\$ 11,806,063	\$ 1,174,832,014	
2005	\$ 1,002,511,357	\$ 131,687,115	\$ 12,490,949	\$ 1,146,689,421	
2004	\$ 832,002,644	\$ 124,217,525	\$ 15,281,091	\$ 971,501,260	
2003	\$ 814,646,831	\$ 90,623,115	\$ 12,957,305	\$ 918,227,251	
2002	\$ 732,405,108	\$ 81,396,248	\$ 16,616,189	\$ 830,417,545	
2001	\$ 721,546,098	\$ 78,188,175	\$ 15,164,288	\$ 814,898,561	
2000	\$ 647,091,321	\$ 71,338,462	\$ 14,038,764	\$ 732,468,547	
1999	\$ 634,147,446	\$ 67,301,706	\$ 12,506,485	\$ 713,955,637	
1998	\$ 586,329,508	\$ 60,695,776	\$ 11,986,052	\$ 659,011,336	
1997	\$ 573,426,552	\$ 56,676,120	\$ 11,059,900	\$ 641,162,572	

Table 7

*City of Poquoson, Virginia**Property Tax Rates (Per \$100 of Assessed Value)*

<b>Last Ten Fiscal Years</b>					
Fiscal Year	Real Estate	Personal Property	Mobile Homes	Recreational Vehicles	Boats
2006	\$1.06	\$3.85	\$1.06	\$1.50	\$1.50
2005	\$1.06	\$3.85	\$1.06	\$1.50	\$1.50
2004	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2003	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2002	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2001	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2000	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1999	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1998	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1997	\$1.12	\$ 4.50/3.85 (1)	\$1.12	\$1.50	\$1.50

(1) The property tax rate for personal property decreased January 1, 1997.

Table 8

*City of Poquoson, Virginia**Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita***Last Ten Fiscal Years**

Fiscal Year	Population	Assessed Value	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2006	11,566 (1)	\$1,174,832,014	\$ 11,027,795	0.9%	\$ 953
2005	11,566 (1)	\$1,146,689,421	\$ 12,086,638	1.05%	\$ 1,045
2004	11,566 (1)	\$ 971,501,260	\$ 12,457,291	1.28%	\$ 1,077
2003	11,566 (1)	\$ 918,227,251	\$ 13,440,709	1.46%	\$ 1,162
2002	11,566 (1)	\$ 830,417,545	\$ 14,145,971	1.70%	\$ 1,223
2001	11,566 (1)	\$ 814,898,561	\$ 14,536,070	1.78%	\$ 1,257
2000	11,566 (1)	\$ 732,468,547	\$ 13,818,890	1.89%	\$ 1,195
1999	11,005 (2)	\$ 713,955,637	\$ 14,631,049	2.05%	\$ 1,329
1998	11,005 (2)	\$ 659,011,336	\$ 14,758,832	2.24%	\$ 1,341
1997	11,005 (2)	\$ 641,162,572	\$ 15,244,732	2.38%	\$ 1,385

(1) Source: 2000 United States Census

(2) Source: 1990 United States Census

(3) Does not include Enterprise and Internal Service general obligation debt, which are retired through revenues of the related operations.

Table 9

*City of Poquoson, Virginia**Computation of Legal Debt Margin*

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June 30, 2006

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**Total assessed value of taxed real property**

General	\$ 1,025,497,078
Public service corporations	<u>11,806,063</u>
<b>Total</b>	<b>\$ 1,037,303,141</b>

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**Debt limit (10% of total assessed value)**

\$ 103,730,314

**Debt applicable to debt limit**

General obligation bonds, other than those authorized for a specific revenue producing project	20,966,951
Capital leases	591,024
Sewer general obligation bonds	12,049,089
State literary fund loans	3,969,820
	<u>37,576,884</u>

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**Margin for additional borrowing**

\$ 66,153,430

Table 10

*City of Poquoson, Virginia**Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service (1)</u>	<u>Percentage of Debt Service to Expenditures</u>
2006	\$34,286,178	\$ 1,058,843	3.09%
2005	\$32,866,629	\$ 1,066,793	3.25%
2004	\$28,944,097	\$ 1,508,041	5.21%
2003	\$26,816,117	\$ 1,531,171	5.71%
2002	\$25,665,657	\$ 1,597,319	6.22%
2001	\$25,470,167	\$ 2,160,329	8.48%
2000	\$23,596,725	\$ 1,479,556	6.27%
1999	\$24,576,933	\$ 1,428,956	5.81%
1998	\$23,764,843	\$ 1,031,993	4.34%
1997	\$23,487,977	\$ 1,039,044	4.42%

(1) Includes debt service for all governmental fund types.

Table 11

*City of Poquoson, Virginia**Demographic Statistics*

<b>Last Ten Fiscal Years</b>				
Fiscal Year	Population	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (5)
2006	11,566 (1)	Not Available	2,572	Not Available
2005	11,566 (1)	Not Available	2,563	2.8%
2004	11,566 (1)	\$35,917	2,503	2.9%
2003	11,566 (1)	\$33,139	2,503	2.8%
2002	11,566 (1)	\$31,673	2,492	2.2%
2001	11,566 (1)	\$30,261	2,483	2.3%
2000	11,566 (1)	\$28,797	2,474	1.7%
1999	11,005 (2)	\$26,817	2,485	2.2%
1998	11,005 (2)	\$25,815	2,481	2.2%
1997	11,005 (2)	\$24,597	2,524	3.1%

(1) Source: 2000 United States Census

(2) Source: 1990 United States Census

(3) Source: Weldon Cooper Center for Public Service combined amount for York County/Poquoson.

(4) Source: Poquoson School Board. Data is September enrollment for each fiscal year.

(5) Source: Weldon Cooper Center for Public Service

Table 12

*City of Poquoson, Virginia**Property Value and Construction***Last Ten Fiscal Years**

Fiscal Year	Real Property Value (1)	New Construction
2006	\$ 1,096,765,878	\$ 21,244,700
2005	\$ 1,073,629,919	\$ 22,166,700
2004	\$ 895,681,790	\$ 11,466,000
2003	\$ 874,326,647	\$ 20,870,700
2002	\$ 786,475,643	\$ 12,046,500
2001	\$ 773,872,808	\$ 15,661,400
2000	\$ 696,175,556	\$ 13,224,500
1999	\$ 682,115,739	\$ 9,449,000
1998	\$ 621,978,401	\$ 11,287,400
1997	\$ 606,262,395	\$ 8,909,900

(1) Real property valuation of total taxable and tax exempt property.

**Table 13*****City of Poquoson, Virginia******Principal Taxpayers - 2006 Assessed Values*****Year Ended June 30, 2006**

Taxpayer	Type of Business	2006 Assessed Valuation	Percentage of Total Real Estate Real Estate Assessment
Poquoson Place Apartments	Apartment Rentals	\$ 8,096,800	0.79%
Poquoson Commons Retail Investors Inc	Shopping Center	7,907,600	0.77%
Poquoson Marina Associates	Marina / Mobile Home Park	4,732,500	0.46%
Suburban Land Company	Shopping Center	4,354,100	0.42%
SBC Wythe Creek LLC	Shopping Center	3,883,800	0.38%
GPH Poquoson LLC	Nursing Home	3,028,200	0.30%
Universal of Poquoson	Mobile Home Park	3,020,400	0.29%
Islander Associates	Aparment Rentals	3,012,200	0.29%
Hunt Properties of Poquoson Inc.	Storage Facilities	2,717,000	0.26%
Wachovia Bank	Financial Institution	2,291,400	0.22%
		\$ 43,044,000	4.10%

Table 14

*City of Poquoson, Virginia**Miscellaneous Statistical Data*

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Year Ended June 30, 2006

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<b>Date of Incorporation</b>	1975
<b>Form of Government</b>	Council-Manager
<b>Population</b>	11,566
<b>Area</b>	14.7 square miles
<b>Lane miles of streets</b>	
City maintenance	109.58
<b>Number of street lights</b>	542
<b>Fire Protection</b>	
Number of stations	2
Number of firefighters and officers	26
Number of volunteers	35
<b>Police Protection</b>	
Number of stations	1
Number of policemen and officers	22
Number of auxiliary	4
<b>Rescue</b>	
Number of squads	1
Number of volunteers	30
<b>Education</b>	
Elementary schools	2
Middle schools	1
High schools	1
<b>Sewers</b>	
Sanitary sewers	64 miles
Storm drains	123 miles
<b>Recreation and culture</b>	
Number of major parks and recreational facilities	12
Acreage of major parks and recreational facilities	39 acres
Number of libraries	1
Number of volumes	57,196
<b>Employees</b>	
City	158
Schools	347
Constitutional Officers	2
<b>Registered Voters</b>	8,299

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Table 14

*City of Poquoson, Virginia**Miscellaneous Statistical Data*Year Ended June 30, 2006**Taxable Retail Sales [1]**Calendar Year

2006	not available
2005	\$ 35,629,250
2004	\$ 38,977,131
2003	\$ 37,968,681
2002	\$ 37,836,130
2001	\$ 34,631,956
2000	\$ 32,194,843
1999	\$ 31,360,650
1998	\$ 27,049,341
1997	\$ 28,266,402

**Building Permits**

Number of new residential buildings constructed	67
Number of new commercial buildings constructed	4
Number of residential buildings demolished	13

[1] Source - Virginia Department of Taxation.

Table 15

*City of Poquoson, Virginia**Net Assets by Component*

<b>June 30,</b>	<b>2006</b>	<b>2005</b>
Governmental activities		
Invested in capital assets - net of related debt	\$ 10,104,292	\$ 7,579,069
Unrestricted	<u>5,044,143</u>	<u>5,765,548</u>
<b>Total governmental activities</b>	<b>\$ 15,148,435</b>	<b>\$ 13,344,617</b>
Business-type activities		
Invested in capital assets - net of related debt	\$ 5,502,832	\$ 5,164,685
Unrestricted	<u>1,690,392</u>	<u>1,854,439</u>
<b>Total business-type activities</b>	<b>\$ 7,193,224</b>	<b>\$ 7,019,124</b>
Primary government		
Invested in capital assets - net of related debt	\$ 15,607,124	\$ 12,743,754
Unrestricted	<u>6,734,535</u>	<u>7,619,987</u>
<b>Total primary government</b>	<b>\$ 22,341,659</b>	<b>\$ 20,363,741</b>

Table 16

*City of Poquoson, Virginia**Change in Net Assets*

June 30,	2006	2005
<b>Expenses</b>		
Governmental activities:		
General government	\$ 2,379,161	\$ 1,846,634
Judicial	238,689	180,184
Public safety	4,657,932	4,750,969
Public works	1,327,111	1,694,612
Health and welfare	821,356	840,310
Education	7,426,666	7,087,769
Parks and recreation	1,030,174	1,343,537
Community development	817,214	563,788
Interest on long-term debt	462,508	500,461
<b>Total governmental activities</b>	<b>19,160,811</b>	<b>18,808,264</b>
Business-type activities:		
Sewer	1,554,446	1,537,870
Parks and recreation	587,701	545,799
Solid waste	528,325	475,269
<b>Total business-type activities</b>	<b>2,670,472</b>	<b>2,558,938</b>
<b>Total expenses</b>	<b>\$ 21,831,283</b>	<b>\$ 21,367,202</b>
<b>Program revenue</b>		
Governmental activities:		
Charges for services:		
General government	\$ 104,747	\$ 100,546
Judicial	36,268	29,008
Public safety	127,129	89,488
Parks and recreation	24,367	24,543
Community development	53,397	-
Operating grants and contributions	2,122,034	2,705,293
Capital grants and contributions	342,400	1,187,904
<b>Total governmental activities</b>	<b>2,810,342</b>	<b>4,136,782</b>
Business-type activities:		
Charges for services:		
Sewer	1,413,403	1,271,539
Solid waste	334,911	325,319
Parks and recreation	315,082	340,230
<b>Total business-type activities</b>	<b>2,063,396</b>	<b>1,937,088</b>
<b>Total program revenue</b>	<b>\$ 4,873,738</b>	<b>\$ 6,073,870</b>
<b>Governmental activities net expense</b>	<b>\$ (16,350,469)</b>	<b>\$ (14,671,482)</b>
<b>Business-type activities net expense</b>	<b>(607,076)</b>	<b>(621,850)</b>
<b>Total primary government net expense</b>	<b>\$ (16,957,545)</b>	<b>\$ (15,293,332)</b>

Table 16

*City of Poquoson, Virginia**Change in Net Assets*

<b>June 30,</b>	<b>2006</b>	<b>2005</b>
<b>General revenues and other changes in net assets</b>		
Governmental activities:		
Taxes:		
Property taxes	\$ 13,053,028	\$ 12,489,445
Sales taxes	-	446,435
Other taxes	2,792,592	2,189,288
Reimbursements from other agencies	2,035,707	1,830,047
Investment earnings	415,638	119,801
Miscellaneous	75,005	116,511
Transfers	(217,683)	(127,800)
<b>Total governmental activities</b>	<b>18,154,287</b>	<b>17,063,727</b>
Business-type activities:		
Investment earnings	23,393	23,888
Charges for services	360,000	587,000
Miscellaneous	180,100	138,553
Transfers	217,683	127,800
<b>Total business-type activities</b>	<b>781,176</b>	<b>877,241</b>
<b>Total general revenues and other changes in net assets</b>	<b>\$ 18,935,463</b>	<b>\$ 17,940,968</b>
<b>Change in Net Assets</b>		
Governmental activities	\$ 1,803,818	\$ 2,392,245
Business-type activities	174,100	255,391
<b>Total primary government</b>	<b>\$ 1,977,918</b>	<b>\$ 2,647,636</b>

Table 17

*City of Poquoson, Virginia**Assessed Value and Estimated Actual Value of Taxable Property***Last Ten Fiscal Years**

Fiscal Year	Residential Property	Commercial/ Industrial Property	Agricultural Property	Total Taxable Assessed Value	Tax Exempt Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2006	\$955,801,900	\$ 67,263,778	\$ 2,431,400	\$1,025,497,078	\$ 71,268,800	\$1.06	\$1,025,497,078	100%
2005	\$933,021,200	\$ 67,064,357	\$ 2,425,800	\$1,002,511,357	\$ 71,118,562	\$1.06	\$1,002,511,357	100%
2004	\$772,269,200	\$ 57,734,844	\$ 1,998,600	\$ 832,002,644	\$ 63,679,146	\$1.12	\$ 832,002,644	100%
2003	\$755,651,100	\$ 56,987,431	\$ 2,008,300	\$ 814,646,831	\$ 59,679,816	\$1.12	\$ 814,646,831	100%
2002	\$677,825,700	\$ 52,743,008	\$ 1,836,400	\$ 732,405,108	\$ 54,070,535	\$1.12	\$ 732,405,108	100%
2001	\$677,062,200	\$ 42,230,098	\$ 2,253,800	\$ 721,546,098	\$ 52,326,710	\$1.12	\$ 721,546,098	100%
2000	\$611,512,900	\$ 34,398,921	\$ 1,179,500	\$ 647,091,321	\$ 49,084,235	\$1.12	\$ 647,091,321	100%
1999	\$599,391,000	\$ 33,447,646	\$ 1,308,800	\$ 634,147,446	\$ 47,968,293	\$1.12	\$ 634,147,446	100%
1998	\$555,396,700	\$ 29,742,208	\$ 1,190,600	\$ 586,329,508	\$ 35,648,893	\$1.12	\$ 586,329,508	100%
1997	\$543,027,900	\$ 29,256,852	\$ 1,141,800	\$ 573,426,552	\$ 32,835,843	\$1.12	\$ 573,426,552	100%

Table 18

*City of Poquoson, Virginia**Taxable Sales by Category***Last Ten Fiscal Years \***

		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Apparel stores	not available	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,205	\$ 76,739
General merchandise	not available	883,933	1,941,064	1,771,804	1,232,901	1,164,210	826,668	417,562	497,584	806,264	
Food stores	not available	12,898,292	7,690,609	6,877,663	6,649,920	5,574,737	6,616,006	6,466,658	6,079,863	4,908,593	
Eating and drinking establishments	not available	3,268,146	-	-	-	-	-	-	-	-	
Home furnishings and appliances	not available	528	16,794	88,709	-	-	-	-	267,196	32,868	
Building materials and farm tools	not available	331,129	692,509	664,981	416,800	543,462	710,546	487,281	-	-	
Auto dealers and supplies	not available	739,427	1,760,755	2,358,836	2,378,111	951,212	1,314,839	1,200,260	1,654,061	1,691,175	
Service stations	not available	-	-	-	-	-	-	-	-	-	
Other retail stores	not available	618,391	-	-	-	-	-	-	-	-	
All other outlets	not available	16,889,404	26,875,400	26,206,688	27,158,398	26,398,335	22,726,784	22,788,889	18,503,432	20,750,763	
Total	not available	\$ 35,629,250	\$ 38,977,131	\$ 37,968,681	\$ 37,836,130	\$ 34,631,956	\$ 32,194,843	\$ 31,360,650	\$ 27,049,341	\$ 28,266,402	

\* Information obtained is for calendar years.

Table 19

*City of Poquoson, Virginia**Ratios of Outstanding Debt by Type***Last Ten Fiscal Years**

Fiscal Year	Governmental Activities						Business-Type Activities					Total Primary Government	Median Household Income	Per Capita		
	General Obligation Bonds		Sales Tax Increment Bonds		Lease Revenue Bonds		Special Assessment Bonds		Term Loan Payable		Certificates of Participation					
	Term Loan Payable	General Obligation Bonds	Increment Bonds	Tax Bonds	Lease Bonds	Revenue Bonds	Sewer Bonds	Bonds	Term Payable	Loan Payable	Capital Leases	Leases				
2006	\$ 20,966,951	\$ 4,560,844	\$ -	\$ -	\$ -	\$ -	\$ 12,049,089	\$ -	\$ -	\$ -	\$ -	\$ 37,576,884	N/A	N/A		
2005	\$ 7,060,912	\$ 5,025,726	\$ -	\$ -	\$ -	\$ -	\$ 12,791,016	\$ -	\$ -	\$ -	\$ -	\$ 24,877,654	N/A	N/A		
2004	\$ 7,645,953	\$ 4,811,338	\$ -	\$ -	\$ -	\$ -	\$ 13,506,624	\$ -	\$ -	\$ -	\$ -	\$ 25,963,915	N/A	N/A		
2003	\$ 8,189,853	\$ 5,250,856	\$ -	\$ -	\$ -	\$ -	\$ 14,131,490	\$ -	\$ -	\$ -	\$ -	\$ 27,572,199	\$ 67,664	N/A		
2002	\$ 8,455,597	\$ 5,690,374	\$ -	\$ -	\$ -	\$ -	\$ 14,779,335	\$ -	\$ -	\$ -	\$ -	\$ 28,925,306	\$ 66,985	N/A		
2001	\$ 8,385,678	\$ 6,150,392	\$ -	\$ -	\$ -	\$ -	\$ 13,108,140	\$ -	\$ -	\$ -	\$ -	\$ 27,644,210	\$ 64,011	N/A		
2000	\$ 7,192,080	\$ 6,626,810	\$ -	\$ -	\$ -	\$ -	\$ 8,699,313	\$ -	\$ -	\$ -	\$ -	\$ 22,518,203	\$ 63,329	N/A		
1999	\$ 7,527,821	\$ 7,103,228	\$ -	\$ -	\$ -	\$ -	\$ 4,539,591	\$ -	\$ -	\$ -	\$ -	\$ 19,170,640	\$ 60,568	N/A		
1998	\$ 11,270,000	\$ 3,530,832	\$ -	\$ -	\$ -	\$ -	\$ 4,460,000	\$ -	\$ -	\$ -	\$ -	\$ 19,260,832	\$ 59,943	N/A		
1997	\$ 11,445,000	\$ 3,862,732	\$ -	\$ -	\$ -	\$ -	\$ 4,635,000	\$ -	\$ -	\$ -	\$ -	\$ 19,942,732	\$ 58,371	N/A		

Table 20

*City of Poquoson, Virginia**Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures*Last Ten Fiscal Years

Fiscal Year	General		Total Debt Service	Total General Expenditures	Ratio of Debt Service to Expenditures
	Principal	Interest			
2006	\$ 1,042,481	\$ 462,508	\$ 1,504,989	\$ 19,160,811	7.85%
2005	\$ 1,050,432	\$ 500,461	\$ 1,550,893	\$ 18,808,264	8.25%
2004	\$ 964,673	\$ 525,850	\$ 1,490,523	\$ 16,947,513	8.79%
2003	\$ 4,102,081	\$ 561,580	\$ 4,663,661	\$ 15,837,292	29.45%
2002	\$ 987,099	\$ 610,220	\$ 1,597,319	\$ 13,978,654	11.43%
2001	\$ 855,248	\$ 591,570	\$ 1,446,818	\$ 13,594,436	10.64%
2000	\$ 812,159	not available	\$ 812,159	\$ 12,092,472	6.72%
1999	\$ 7,733,018	not available	\$ 7,733,018	\$ 11,441,719	67.59%
1998	\$ 488,353	not available	\$ 488,353	\$ 11,122,219	4.39%
1997	\$ 473,572	not available	\$ 473,572	\$ 10,363,046	4.57%

Table 21

*City of Poquoson**Full-time Equivalent City Government Employees by Function/Program***Last Ten Fiscal Years**

Function/Program	Full-time Equivalent Employees as of June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government										
Management services	12.6	12.0	11.5	10.5	9.7	9.3	8.7	9.35	9.05	8.55
Finance	8.0	7.5	7.2	7.2	7.2	7.2	7.2	7.3	7.3	7.3
Planning	5.45	3.6	3.6	3.7	3.7	3.3	2.7	2.7	2.5	2.5
Building	4.0	3.1	2.1	2.25	2.5	2.5	2.5	2.5	2.5	2.5
Other	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Police										
Officers	22.5	20.5	20.5	20.9	20.9	21.25	21.25	18.75	18.25	18.15
Civilians	6.5	6.5	6.1	5.75	5.75	6.75	6.75	6.75	6.75	6.75
Fire										
Firefighters and officers	26.0	26.0	26.0	26.0	22.0	22.5	22.5	21.5	20.5	18.3
Civilians	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Refuse collection										
Other public works										
Engineering	14.5	14.5	14.5	14.5	14.5	13.5	13.5	13.5	13.5	13.5
Other	1.0	2.85	2.85	2.75	2.75	3.75	3.75	3.75	3.75	3.50
Fleet										
Redevelopment										
Park and recreation										
Library										
Water										
Wastewater										
Transit										
Total	144.4	137.2	134.75	134.6	128.55	127.5	125.8	121.65	117.65	112.8

Table 22

*City of Poquoson, Virginia**Operating Indicators by Function/Program*

Last Ten Fiscal Years										
Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Physical arrests	444	412	350	482	438	778	493	545	558	544
Parking violations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Traffic violations	550	712	468	701	762	795	1,075	1,415	1,040	1,378
Fire										
Emergency responses	1,191	1,194	1,106	1,127	1,055	1,183	1,183	1,096	1,037	n/a
Fires extinguished	99	85	180	76	85	63	63	165	160	n/a
Inspections	12	12	12	12	12	10	10	10	10	n/a
Refuse collection										
Refuse collected (tons per day)	1,650	1,610	1,604	1,646	1,550	1,535	1,573	1,606	1,644	1,695
Recyclables collected (tons per day)	1,601	1,312	1,578	1,396	1,174	1,153	1,230	1,205	1,150	1,044
Other public works										
Street resurfacing (tons)	3,620	3,019	2,737	2,536	3,409	4,725	5,900	4,725	3,597	3,366
Potholes repaired	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Park and recreation										
Athletic field permits issued	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Community center admissions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Library										
Volumes in collection	57,196	53,856	52,644	51,684	50,755	47,496	42,703	40,141	36,012	30,784
Total volumes borrowed	190,000	181,360	179,276	197,299	189,127	186,450	193,785	218,590	212,062	164,580
Water										
New connections	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Water mains breaks	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average daily consumption (thousands of gallons)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Peak daily consumption (thousands of gallons)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wastewater										
Average daily sewage treatment	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sewer connections	4,649	4,544	4,494	4,440	4,200	3,881	3,907	3,740	3,678	3,613
Transit										
Total route miles	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Passengers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Table 23

*City of Poquoson, Virginia**Capital Asset Statistics by Function/Program***Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone offices	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Patrol units	23	21	21	21	21	21	21	19	18	18
Fire stations	2	2	2	2	2	2	1	1	1	1
Refuse collection										
Collection trucks	3	3	3	3	3	3	3	3	3	3
Other public works										
Street (miles)	53.16	52.88	51.95	51.76	51.76	51.76	51.76	51.76	50.31	n/a
Highways (miles)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Streetlights	542	507	502	495	477	404	392	386	386	346
Traffic signals	3	3	3	3	3	3	3	3	1	1
Park and recreation										
Acreage	39	38	31	31	31	31	31	31	28	28
Playgrounds	3	3	2	2	2	2	2	2	2	2
Baseball/softball diamonds	3	3	3	3	3	3	3	3	3	3
Soccer/football fields	5	5	5	5	5	5	5	5	5	5
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fire hydrants	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Storage capacity (thousands of gallons)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wastewater										
Sanitary sewers (miles)	64	64	63	54	54	52	47	42	41	41
Storm sewers (miles)	16	15	14	13	12	10	9	7	4	1
Treatment capacity (thousands of gallons)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Transit-minibuses	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards***

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Business Solutions

Honorable Mayor and City Council  
*City of Poquoson, Virginia*

We have audited the financial statements of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the ***City of Poquoson, Virginia's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted in our letter to management dated October 27, 2006 certain matters involving the City's operations and internal control over financial reporting that we consider to be reportable conditions and material weaknesses under standards established by the American Institute of Certified Public Accountants.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the ***City of Poquoson, Virginia's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Goodman &amp; Company, LLP." The signature is fluid and cursive, with "Goodman" and "Company" stacked vertically and "LLP" at the end.

Newport News, Virginia  
October 27, 2006

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## ***Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133***

Honorable Mayor and City Council  
*City of Poquoson, Virginia*

### ***Compliance***

We have audited the compliance of the *City of Poquoson, Virginia* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The *City of Poquoson, Virginia's* major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the *City of Poquoson, Virginia's* management. Our responsibility is to express an opinion on the *City of Poquoson, Virginia's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Poquoson, Virginia's* compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Poquoson, Virginia's* compliance with those requirements.

In our opinion, the *City of Poquoson, Virginia* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

### ***Internal Control Over Compliance***

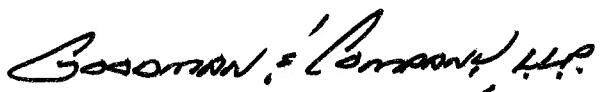
The management of the *City of Poquoson, Virginia* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Poquoson, Virginia's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Honorable Mayor and City Council  
*City of Poquoson, Virginia*

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brian J. Lippert".

Newport News, Virginia  
October 27, 2006



***Report of Independent Auditors on Compliance  
with Commonwealth of Virginia Laws,  
Regulations, Contracts and Grants***

Certified Public Accountants  
Specialized Services  
Business Solutions

Honorable Mayor and City Council  
***City of Poquoson, Virginia***

We have audited the financial statements of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the ***City of Poquoson, Virginia***, is the responsibility of the ***City of Poquoson, Virginia's*** management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***City of Poquoson, Virginia's*** compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

**Code of Virginia**

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Taxes
- Personal Property Tax Relief Act

**State Agency Requirements**

- Education
- Comprehensive Services Act
- Highway Maintenance Funds

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Honorable Mayor and City Council  
*City of Poquoson, Virginia*

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the *City of Poquoson, Virginia*, had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of City Council, *City of Poquoson, Virginia*'s management, the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Gossett & Company, LLP.*

Newport News, Virginia  
October 27, 2006

*City of Poquoson, Virginia*

*Schedule of Expenditures of Federal Awards*

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**Year Ended June 30, 2006**

<b>Federal granting agency/recipient state agency/grant Program/grant number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U. S. Department of Agriculture</b>		
Pass through payments:		
Department of Agriculture and Consumer Services:		
National School Lunch Program	10.555	\$ 118,784
State Department of Agriculture and Consumer Services:		
National School Lunch Program	10.555	41,175
USDA donated commodities		
<b>U.S. Department of Transportation</b>		
Pass through payments:		
Department of Motor Vehicles:		
Alcohol Traffic Safety and Drunk Driving		
Prevention Incentive	20.601	14,691
<b>Department of Education</b>		
Direct payments:		
Impact Aid	84.041	113,908
Pass through payments:		
Virginia Department of Education :		
Title I - Grants to local educational agencies	84.010	107,790
Improving teacher quality state grants	84.367	64,458
Title VI:		
Innovative Education Program Strategies	84.298	8,261
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to states for education		
of handicapped children:		
Special Education Grants	*	355,354
Vocational education-basic grants to states	84.048	18,430
State and Drug-free Schools and Communities	84.186	6,578
Education Technology Grant	84.318	1,994
<b>Department of Homeland Security</b>		
Direct payments:		
State domestic preparedness equipment support program	97.004	<u>56,489</u>
		<u>\$ 907,912</u>

\* Represents a major program of the City of Poquoson.

*City of Poquoson, Virginia*

*Notes to Schedule of Expenditures of Federal Awards*

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June 30, 2006

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Poquoson and is presented on the modified accrual basis of accounting. The City's reporting entity is defined in Note 1 to the City's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. Food Distribution**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2006, the food service organization had food commodities totaling \$3,436 in inventory.

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*City of Poquoson, Virginia*

***Schedule of Findings and Questioned Costs***

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**Year Ended June 30, 2006**

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**1. Summary of Auditors' Results**

- a) The auditor's report expresses an unqualified opinion on the financial statements of the City.
- b) There were reportable conditions noted in internal control over financial reporting as indicated in the letter to management dated October 27, 2006.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No reportable conditions were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal programs of the City expressed an unqualified opinion on the major federal programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major program is:
  - i) Special Education Cluster (CFDA No. 84.027)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

**2. Findings Relating to the General-Purpose Financial Statements which are Required to be Reported in accordance with Generally Accepted Governmental Auditing Standards.**

None

**3. Findings and Questioned Costs - Federal Programs**

None

**4. Status of Prior Year Audit Findings**

There were no audit findings for the year ended June 30, 2005.

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